# Table of Contents

Table of Contents ....................................................................................................................................1

Financial Markets ..................................................................................................................................3

- Markets in Financial Instruments Directive (MiFID) .................................................................3
- Clearing and Settlement of Securities ..........................................................................................3
- Investment Funds .........................................................................................................................3
- Transparency Directive ...............................................................................................................4
- Prospectus Directive and Regulation ............................................................................................4
- Market Abuse Directive .................................................................................................................4
- Pensions ..........................................................................................................................................5
- Lamfalussy Process .......................................................................................................................5

Banking Supervision ...............................................................................................................................6

- Review of the rules on Supervisory Assessments of Mergers & Acquisitions .........................6
- Implementation of the Capital Requirements Directive (CRD) ...................................................6
- Innovative Capital Instruments .....................................................................................................7
- Supervision of Banks' Liquidity Management .............................................................................7
- Large Exposures ............................................................................................................................8
- EU/ US Gap ......................................................................................................................................8
- CEBS Working Programme ..........................................................................................................8
- IBFed ...............................................................................................................................................9

Economic and Monetary Affairs Committee .......................................................................................10

- The outlook for the economy of the euro area ............................................................................10
- Structural reform in the EU ..........................................................................................................10
- Small and Medium Sized Enterprises .........................................................................................10
- Export Credit Insurance ...............................................................................................................10
- Statistics .........................................................................................................................................11

Fiscal Matters .......................................................................................................................................12

- VAT ...............................................................................................................................................12
- Company taxation ..........................................................................................................................12
- FISCO ..........................................................................................................................................13
- Qualified Intermediary Agreements ...............................................................................................13

Accounting issues ...............................................................................................................................14

- Interest Margin Hedging .............................................................................................................14
- Components Approach ...............................................................................................................14
<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mutual Recognition IFRS/US GAAP</td>
<td>15</td>
</tr>
<tr>
<td>Fair Value Measurement and Full Fair Value</td>
<td>15</td>
</tr>
<tr>
<td>EC Round Table for consistent application of IFRS in the EU</td>
<td>15</td>
</tr>
<tr>
<td>Legal Affairs</td>
<td>17</td>
</tr>
<tr>
<td>Antitrust EU Law</td>
<td>17</td>
</tr>
<tr>
<td>Damages Action for Breach of EC Antitrust Rules</td>
<td>17</td>
</tr>
<tr>
<td>Civil and Procedural Law</td>
<td>17</td>
</tr>
<tr>
<td>Green Paper on European Bank Arrestment</td>
<td>17</td>
</tr>
<tr>
<td>Conventions on the Law applicable to Contractual Obligations (Rome I)</td>
<td>18</td>
</tr>
<tr>
<td>EU Contract Law and the Review of the Consumer Law Acquis</td>
<td>18</td>
</tr>
<tr>
<td>Other Initiatives under The Hague Programme on strengthening Freedom, Security and Justice in the EU</td>
<td>18</td>
</tr>
<tr>
<td>Company Law and Corporate Governance</td>
<td>19</td>
</tr>
<tr>
<td>Shareholders Rights</td>
<td>19</td>
</tr>
<tr>
<td>Consultation on the overall Action Plan’s Remaining Issues</td>
<td>19</td>
</tr>
<tr>
<td>Legal Framework for Securities</td>
<td>19</td>
</tr>
<tr>
<td>The Future UNIDROIT Convention</td>
<td>20</td>
</tr>
<tr>
<td>Consumer Affairs</td>
<td>20</td>
</tr>
<tr>
<td>Proposal for a Directive on Credit to Consumers</td>
<td>20</td>
</tr>
<tr>
<td>Mortgage Credit</td>
<td>21</td>
</tr>
<tr>
<td>Physical security</td>
<td>21</td>
</tr>
<tr>
<td>Fight against Money Laundering &amp; Terrorist Financing</td>
<td>22</td>
</tr>
<tr>
<td>Third Money Laundering Directive</td>
<td>22</td>
</tr>
<tr>
<td>EU Implementation of FATF Special Recommendation VII on Wire Transfers</td>
<td>22</td>
</tr>
<tr>
<td>Co-operation with the FATF</td>
<td>23</td>
</tr>
<tr>
<td>Social Affairs</td>
<td>23</td>
</tr>
<tr>
<td>Portability of Pension Rights</td>
<td>23</td>
</tr>
<tr>
<td>Social Dialogue: Demography</td>
<td>23</td>
</tr>
<tr>
<td>Social Dialogue: Enlargement</td>
<td>23</td>
</tr>
<tr>
<td>International Affairs</td>
<td>24</td>
</tr>
<tr>
<td>Liberalisation of Financial Services</td>
<td>24</td>
</tr>
<tr>
<td>Financial Sanctions</td>
<td>24</td>
</tr>
<tr>
<td>Regulatory Dialogues</td>
<td>25</td>
</tr>
<tr>
<td>Cooperation with the International Institute of Bankers</td>
<td>25</td>
</tr>
<tr>
<td>Payments</td>
<td>26</td>
</tr>
<tr>
<td>EBF co-operation with the EPC in the SEPA- project</td>
<td>26</td>
</tr>
</tbody>
</table>
Financial Markets

Markets in Financial Instruments Directive (MiFID)

During 2006 the implementing measures for MiFID (Level 2) were completed and approved by the Member States and the European Parliament, with limited amendments. The EBF had adopted a position early in the process to protect the European Commission’s Level 2 text since we felt it struck an appropriate balance on most issues between the needs of efficient capital markets and a proportionate consumer protection regime.

Very shortly after the approval of the Level 2 measures, the Committee of European Securities Regulators (CESR) published its work programme for converging supervisory practices under MiFID (Level 3). MiFID received a good deal of press coverage in Europe throughout 2006 as firms’ efforts to prepare for the 1 November 2007 implementation of MiFID gathered pace.

The centrepiece of the EBF’s lobbying strategy for MiFID Level 3 was to establish a dialogue between industry, its supervisors and legislators. In mid-November the EBF hosted the Frankfurt Eurofinance week MiFID Summit which brought together interested stakeholders to work out solutions to the most important issues that will be faced in the coming year.

Clearing and Settlement of Securities

A European Code of Conduct for Clearing and Settlement drafted by Market Infrastructures (securities exchanges, clearing houses and settlement providers) was signed by the respective CEOs of the Market Infrastructures on 7 November 2006. In doing so Market Infrastructures committed themselves to transparent pricing, providing the conditions for interoperability and access and unbundling and accounting separation for post trading services by 31 January 2007. The EBF has closely followed developments and has presented the banks’ (users’) position before the European Commission throughout the negotiations. The EBF wrote to Commissioner McCreevy on 17 November 2006 to welcome the initiative, to raise some points of clarification and to position the EBF as being able to provide expertise to provide a user perspective on the monitoring of the Code.

The EBF wrote to the European Central Bank (ECB) to express its support for the TARGET2-Securities initiative announced in July 2006. The idea of TARGET2-Securities is to make the processing of securities and cash settlement possible on a single platform and at the same time. To be in a stronger position to evaluate the EBF’s initial support for the project, we recommended that the ECB provides as soon as possible further information on the operational aspects of the proposal in order to assess its benefits. The EBF also made itself at the full disposal of the ECB for further work on elaborating the T2S proposal in the project development stage.

Investment Funds

In the field of investment funds, the work carried out during 2006 focused mainly on preparations for the European Commission’s White Paper. Further to the July 2005 Green Paper and the responses received from industry, the Commission decided to set up two expert groups on value chain efficiencies for Undertakings for Collective Investments in Transferable Securities (UCITS) and on alternative investment products. The EBF nominated several bankers for both groups. The
reports were finalised in July and subsequently presented by the Commission at official hearings. The EBF welcomed the reports, and especially the recommendation of targeted amendments to the UCITS Directive in a number of areas as well as the assessment that no action was needed for hedge funds. The Commission’s White Paper, released in November, closely followed the recommendations of the expert groups. As the EBF highlighted in its response letter to the Commission, industry’s main concern was on the overlap between the UCITS Directive and the MiFID. The EBF started to prepare a workshop to deal with this overlap.

In parallel to these work streams, CESR and the Commission finalised the work on eligible assets for UCITS, on which the EBF had provided continued and substantial input especially during 2005.

**Transparency Directive**

In view of the January 2007 implementation date of Level 1 of the Transparency Directive, work was going on during 2006 to agree on the Level 2 implementation measures. The Commission completed its consultation on the draft implementing measures in January 2006. In addition, CESR consulted on the setting up of Officially Appointed Mechanisms (OAMs) for the storage and filing of regulated information. However, it became clear that the legal mandate for these OAMs was uncertain, and the Commission’s formal draft implementing measures for Level 2 released in mid-2006 did not make any provision for these mechanisms. Whilst the Commission’s proposal and the result of the negotiations with the European Parliament was broadly supported, industry’s main concern consisted in the timing gap of about a year between the implementation date of the Level 1 and the Level 2 measures.

**Prospectus Directive and Regulation**

The deadline for the transposition of the Prospectus Directive into national legislation was 1 July 2005. On the European level, the European Commission considered the amendment of the accompanying regulation for the case of issuers with a complex financial history.

The EBF’s activities focused on the bigger picture by exchanging views and information on the national implementation of the Directive and the Regulation. As a result of this and in response to a call for evidence launched by CESR, the EBF engaged in the drawing up a list of issues where problems with the implementation of the two pieces of legislation had been encountered. This included language requirements, the recognition of the Prospectus Passport, especially for structured instruments, and the application of the base prospectus.

**Market Abuse Directive**

In the second half of 2006 CESR began to consult the market on the supervisory functioning of the market abuse regime in Europe. While some delays in transposition of the Market Abuse Directive (MAD) into national legislation still exist, transposition and implementation is now by and large complete across Europe. The time Member States have taken to complete this process has varied significantly. Therefore, the EBF’s members’ experiences of the regime differ and the collective experience of European banks varies according to the jurisdiction of the institution.

However, where there has been experience of the MAD regime, the EBF reported that this experience has been broadly positive and that by and large the regime appears to be working well.
With this in mind, the EBF called on CESR to allow for further experience of the regime to be gained before taking definitive policy action. We believe that a better decision on which areas could be in need of review should be taken with the benefit of greater experience and towards the end of 2007.

**Pensions**

A subgroup of the European Commission’s Financial Services Committee was mandated to draw up a report on ageing and financial markets in the second half of 2006. The EBF provided some preliminary input to the report, pointing in particular to the impediments to the cross-border provisioning of pension-related financial services and to the portability of pension schemes, including the tax regimes and national social and labour laws. The EBF stressed that these should be dealt with through measures of targeted full harmonisation, which should however not result in product standardisation. The EBF also decided to monitor where additional input would be needed.

**Lamfalussy Process**

In preparation for the Inter Institutional Monitoring Group’s (IIMG) consultation on how the functioning and future improvement of the Lamfalussy Process in 2007, the EBF made representations before the Group which set out that the Lamfalussy Process can be considered a success, but with some room for improvement. The EBF stated that no definitive judgements ought to be taken in respect of the development of the Process in the near future. Nonetheless the EBF believed that it was possible to highlight some general principles:

- the distinction between the four levels of the Process is key to the success of the Process in the future. This should be maintained and better enforced;
- within the four levels Level 1 is where the political discussions must take place and due time should be taken to ensure that difficult political decisions are not then exported to Level 2. Level 2 ought to be the level where the technical implementing measures are taken and not where political discussions are resolved;
- national discussions about how to implement Lamfalussy Directives will inevitably take place in parallel to the corresponding discussions in the respective Level 3 Committees. It is the role of the Level 3 Committees to converge supervisory practices as far as possible without adding an additional level of detail and complexity to national implementation;
- Level 3 Committees could usefully make a distinction early in the Process between issues which require a harmonised approach (i.e. technical issues which relate to market structure) and those where a principled approach would be more suitable for issues that relate more to the conduct of business; and the most effective legislation is arrived at by consensus. Therefore appropriate consultation in the timeliest manner is the condition sine qua non of success for the Lamfalussy Process as a whole. Dialogue between legislators, supervisors and stakeholders delivers consensus. Failure to engage in dialogue will only serve to undermine the collective effort to create the Single Market.
Banking Supervision

Review of the rules on Supervisory Assessments of Mergers & Acquisitions

In September 2006, the European Commission published a proposal for a Directive amending the current legal framework for the supervisory approval process with regard to acquisitions and increase of shareholdings in the banking, insurance and securities sectors.

The EBF welcomed the proposed text, which clarifies and harmonises the legal certainty, clarity and transparency of supervisory assessments of M&A in the EU. It also tightens the procedures supervisors have to follow when assessing a proposed transaction and making their subsequent decision. The Commission proposed, for instance, to establish a closed list of assessment criteria and to limit in time the length of the procedure.

The EBF observed, however, that the Proposal should have provided greater requirements for a closer cooperation and effective information exchange among home and host supervisors throughout the assessment process.

Implementation of the Capital Requirements Directive (CRD)

2006 was a busy year for the implementation of the Capital Requirements Directive, which transposes the Basel II rules into European legislation. Whilst the Directive was only formally adopted in mid-June 2006, the work on national transposition was going on throughout the whole of 2006 on the basis of the versions adopted by the Council and the European Parliament in mid-October.

To support the national implementation and ensure the consistent interpretation of the CRD provisions, the European Commission worked together with the Member States and the Committee of European Banking Supervisors (CEBS) in the CRD Transposition Group.

For more general queries and exchanges of views, the EBF set up its own CRD implementation forum on its MemberNet, to which both member federations and interested individual institutions were given access. Topics tackled on this forum included notably institutions’ and supervisors’ interpretation of individual articles, the national implementation of the Common Reporting Framework and the use of national discretions.

The EBF furthermore continued to contribute to the work of CEBS. It responded to all of CEBS’ consultations released during 2006, which included a second round of consultation on validation; a consultation on additional technical guidance on the application of the Supervisory Review Process, including Interest Rate Risk in the Banking Book and Concentration Risk; a second round of consultation on outsourcing; and a consultation on stress testing.

In brief, the positions taken were the following:

- On validation, the EBF raised concerns on both the timing of the guidelines and the level of detail adopted by CEBS. It furthermore pointed to some areas which were super-equivalent to the CRD framework. It called on CEBS to limit its guidance to high-level principles and to avoid prescribing detailed steps.
- In response to CEBS consultation on additional guidance for the Supervisory Review Process, the EBF questioned in particular the level of detail of the guidelines for
concentration risk. It asked CEBS to consider industry’s responses to the questionnaire on Large Exposures, which had been launched in parallel and contained several questions on general aspects of concentration risk. This suggestion was subsequently taken on board by CEBS.

- In its response to CESB’s second consultation on the standards for outsourcing of credit institutions’ business activities, the EBF expressed its disappointment about the level of detail of the standards. Observing that banks currently had solid and efficient outsourcing management procedures in place, the EBF argued that there was no urgency for CEBS to take regulatory initiatives in that area. It furthermore emphasised that intra-group as well as cross-border intra-group outsourcing should be excluded from the paper’s scope. In its final set of standards on outsourcing, CEBS clarified that the principle of proportionality also applied to outsourcing and its policy, yet it was reluctant to exclude intra-group outsourcing from the scope of its guidelines.

- The EBF fully supported CEBS’ flexible and proportionate approach concerning the implementation of its proposed guidelines on Stress Testing. However, it also cautioned supervisors not to expect from banks that they would use, or comply with, every guideline but rather to engage in an ongoing dialogue with the industry with a view to gradually establishing a common understanding of the different practices related to stress testing. CEBS’ final additional technical guidelines reflected most feedback from industry in relation to the scope, calibration, frequency and documentation of stress tests. CEBS also considered to a larger extent the application of the proportionality principle to its guidelines.

Innovative Capital Instruments

In its response to a CEBS’ questionnaire on innovative capital instruments, the EBF highlighted that the variety of regulatory interpretations of the innovative Tier requirements (which was stated in the Basel Committee for Banking Supervision’s press release of 1998) gives rise to unfair competitive advantages by enabling certain banks to manage their capital position in a more efficient way than others. EBF insisted that authorities would adopt a consistent view on what constitutes innovative Tier 1 capital across Europe, and indeed in the global marketplace, as this would be of great benefit towards ensuring a level playing field for all banks.

Supervision of Banks’ Liquidity Management

An EBF Expert Group has prepared a discussion paper which outlines issues to be addressed as a matter of priority to make swift progress in the area of supervision of banks’ liquidity management. The group argues that the primary objectives of authorities in this area should be to achieve a framework (i) that works consistently for both solely "domestic" institutions and international banking groups with cross-border liquidity management needs and (ii) avoids impeding the free and optimal flow of liquidity within groups, thus supporting the desirable benefit of reducing systemic liquidity risk.

The paper is principles-based and aims at providing input into a debate which also needs to be held at a world-wide level. It takes the view that the European Union is ideally placed to set an example for the international community at large. Furthermore, it provides an all encompassing view, which includes banking supervision as well as monetary policy and other central banking
issues. Finally, it emphasises that regulators should adopt a concerted approach in the area of banking liquidity management and takes the view that the supervision of banks’ liquidity management needs to be organised at a group level.

Large Exposures

In view of the requirement included in the CRD to review the Large Exposures regime, the European Commission asked CEBS in the course of 2006 to carry out a number of work streams to inform the Commission. This included a stocktake of supervisory practices, a stocktake of industry practices and a consideration of risk mitigation practices.

The EBF responded to the questionnaire on industry practices to point out the main problems encountered in the current regime and the industry’s common view on the topic. It emphasised notably that the review should be wide-ranging and should in the first place serve to align the Large Exposures regime with the general risk-sensitive approach of Basel II and with the principle that good risk management practices should be rewarded. It also pointed to the inconsistencies of the limits applicable to intra-group exposures, to the divergent treatment of credit risk derivatives and to the reporting burden encountered in some jurisdictions. Whilst the European Commission did not consider the EBF’s suggestion to carry out some quick-fix measures feasible, the call for a wide-ranging review was taken up. To this aim, the European Banking Committee decided to extend the review beyond end-2007.

EU/ US Gap

Further to the US supervisors’ announcement in September 2005 that the implementation of the Basel II rules in the US would be delayed, an unofficial Notice of Proposed Rulemaking (NPR) was released in March. Together with the International Institute of Finance (IIF) and the Institute of International Bankers (IIB) the EBF met in May with the four agencies to discuss industry’s main concerns. In a similar format, the EBF also met in June with the Basel Committee’s Accord Implementation Group (AIG) to address the encountered issues from a multilateral angle, in addition to the bilateral EU-US angle.

The Basel II NPR was officially released in September. After the publication of the NPR for the Basel 1A rules for smaller institutions in December, the deadline for responses to both Notes was set for late March 2007.

In the meantime, the EBF wrote to Internal Market Commissioner Charlie McCreevy, to Basel Committee Chairman Nout Wellink and to CEBS Chairman Danièle Nouy to underline its continued support for the original Basel II rules and the need for a truly Global Accord.

CEBS Working Programme

The EBF has suggested to CEBS that its main priority for the year 2007 should be to make progress towards achieving supervisory convergence and has, more particularly, recommended that its future initiatives would primarily focus on improving cooperation between home and host supervisors and, in general, on developing a true European supervisory culture. It has observed, furthermore, that there is an urgent need for a regulatory pause concerning issues which are not directly aimed at preparing a new supervisory architecture.
IBFed

The EBF continued to provide the Secretariat for the IBFED Basel Working Group during 2006. The main focus of the discussions was the delay of the Basel II implementation in the US and the divergences in terms of substance. In addition, the IBFED Basel WG carried out a survey on the functioning of colleges of supervisors, which it shared with the AIG in January 2006. In February, the IBFED furthermore responded to the Basel Committee’s consultation on the relationship between home and host supervisors, stressing in particular the role of the home supervisor in channelling the information pertaining to the group level.
Economic and Monetary Affairs Committee

The outlook for the economy of the euro area

The Economic and Monetary Affairs Committee (EMAC) is composed of chief economists from banks and banking associations around the EU and EFTA countries. EMAC advises EBF members on the economic aspects of different EU financial policy areas, and provides a forum for discussion of economic and financial themes of interest to the banking sector and the public. It also offers a counterpart to the EU institutions in the discussion of economic and monetary matters.

Twice a year EMAC conducts a poll among its members to gain an idea of the sentiment and range of economic forecasts in the banking community. Publication of the results, in the middle and towards the end of the year, is timed to precede the publication of the ECB’s mid-year and end-year staff forecasts.

EMAC’s mid-2006 Outlook, published in June, posed the question: “How durable a recovery?”. It registered the good progress implied by the economic indicators, and also noted that the ECB was predisposed to bring interest rates up to more neutral levels. In its concluding analysis, the Committee doubted that the current economic momentum could be sustained into 2007, and recommended a cautious monetary policy. This perspective was maintained at year-end, notwithstanding the evidence of the turnaround in the German economy, stimulated by successful restructuring in the corporate sector. EMAC continued to stress the need to develop the economy’s productive potential, and the restructuring efforts required of governments.

Structural reform in the EU

As background to EMAC’s biannual snapshots of the euro area economy, the committee began work last year on an analysis of the structural reforms needed, and progress made so far. This is scheduled for publication in the first quarter of 2007.

Small and Medium Sized Enterprises

In February 2006, work began on the Fifth EU Bank-SME Round Table, organised by the European Commission. The main topics on the agenda are: transparency and dialogue; mezzanine finance and business transfers; and securitisation. The principal objective of the discussions is to take stock of the issues and challenges in the different fields, identify good practice around the EU, and make recommendations for further action. The work is likely to be concluded at a high level meeting hosted by the German Presidency in spring 2007, with the publication of reports on the three main topics.

Export Credit Insurance

The EBF’s Working Group (WG) on Export Credit, in collaboration with the OECD’s Business and Industry Advisory Council (BIAC), is among the stakeholders regularly consulted by the OECD Working Party on Export Credits and Credit Guarantees. The subject of discussion is the OECD Arrangement – a “gentleman’s agreement” which sets guidelines for official support for export credits – and other OECD accords affecting export credits.
During 2006, the Recommendation on export credits and the environment has been under review. The EBF participated in a consultation on this subject in May, and contributed written views to the Working Party in November. The EBF delegation conveyed our members’ concern about the potential administrative burden of new measures; and highlighted the risk that with the introduction of new standards and procedures by OECD members, the global playing field could become even less level than before. The review continues into 2007.

The WG also continued to follow developments in this forum concerning the OECD Action Statement on Bribery and Officially Supported Export Credits, which was revised last year. The group stands ready to offer advice and lobby if necessary on any other aspect of export credit regimes – at global, OECD or EU level – which may have an impact on banking practice and business.

Statistics

The EBF’s Working Group on Statistics monitors developments in EU Statistical requirements, in particular the ECB’s requirements for Monetary Financial Institutions. It also co-ordinates the EBF’s work on statistics of the national banking sectors of EBF Members and Associates. The structure of the new EBF database of historical banking statistics was completed in 2006, and will be fully introduced early in 2007.
Fiscal Matters

VAT

The 6th VAT Directive, which is the core VAT legislation adopted in 1977, has remained unchanged for 30 years. In today’s fast changing banking environment, the VAT system applicable to financial services is characterised by its fiscal non–neutrality, which penalizes European banks against non-EU competitors, and by an unacceptable level of legal uncertainty, resulting notably from a lack of updated and uniform definitions of financial services, as well as a lack of clear delineation between exempt and taxable services.

In May 2004, the EBF put forward a set of proposals for reform.

These proposals first expanded on the need for modernizing the language of the 6th Directive.

With a view to tackling the non-neutrality issue, a second recommendation suggested that banks should be given an option to charge VAT with business customers on certain transactions that are currently exempt. The wide adoption of such option would allow banks to supply services to business customers in perfect VAT-neutrality.

As third recommendation, the EBF suggested that VAT should not be charged on transactions between different parts of one company and on transactions between related companies within a group.

With a view to presenting a legislative proposal beginning 2007 for modernizing the current VAT legislation on financial services and insurances, the European Commission launched mid-2006 a public online consultation. Many of the EBF recommendations were taken up by the European authorities in the consultation paper.

May 2006 saw a major conference held as part of the European Commission’s public consultation process. The conference was jointly organized by the EBF and the European Commission and it was attended by more than 400 delegates from many different professional backgrounds.

In parallel with the public consultation, the Commission selected PricewaterhouseCoopers (PwC) to perform a study to increase the understanding of the economic effects of the VAT exemption for financial and insurance services, to provide evidence of the inefficiency of the current situation and to identify legislative options to remove inefficiency from the current system.

In a context of increasing political manoeuvring, the key question is now how far the reform will go. A two-step approach has apparently been adopted by Member States, with first focus on the modernization of the definitions of financial exemptions. However, because non-neutrality is an issue of international competition, EBF hopes that by the end of the day a reform will take place which will tackle all aspects of the current issue.

Company taxation

Ministers at Informal ECOFIN Council meeting in September 2004 agreed to the creation of a working group of Member States, chaired by the Commission, to consider the idea of allowing all companies to use a common consolidated set of rules for calculating their EU-wide taxable profits and a pilot project that would allow Small and Medium Enterprises (SMEs) to use the tax rules of their home state for calculating their EU-wide taxable profits.
The Common Consolidated Corporate Tax Base (CCCTB) is a subject to which the EU institutions have paid more and more attention over the years. There is no doubt that this subject will be pivotal in European taxation in the coming years.

**FISCO**

In 2005, the EC set up the Clearing and Settlement Fiscal Compliance (“FISCO”) expert group. Their mandate was to identify withholding tax procedures and transaction tax procedures integrated in settlement systems that were obstacles to the functioning of capital markets and/or involved high compliance costs (so-called Giovannini barriers 11 and 12).

Mid-2006, a first Report (fact finding study) was adopted by FISCO. A second Report on Solutions is due for beginning 2007 and will include proposed solutions.

In this respect, the EBF has informed the expert group that discussions should in its view start as soon as possible with selected tax authorities with a view to streamlining and harmonizing tax relief/collection procedures.

**Qualified Intermediary Agreements**

The EBF is closely monitoring other international developments at the OECD. Among other initiatives, the EBF organized in February 2006 a very well attended conference with the American Internal Revenue Service on the US Qualified Intermediary Agreement tax regime, in which high-level IRS officers, representatives of banks and professional organizations made presentations.
Accounting issues

Interest Margin Hedging

Hedging rules are contained in IAS 39, a standard that comprises principles for recognition and measurement of financial instruments. Hedge accounting is, in particular, aimed at symmetrically accounting the opposite effects that a financial instrument (hedged item) and a related derivative (hedging instrument) have on the entity’s net income.

The International Accounting Standard Board (IASB) and the European Banking Federation (EBF) have for some time been engaged in a dialogue on the need to revise the hedging rules for hedges of interest rate risk contained in IAS 39.

In the run up to the first time adoption of IFRS, the discussions between the IASB and the EBF culminated in the IASB incorporating within IAS 39 an ability to apply fair value hedge accounting for a portfolio hedge of interest rate risk. The outcome was, however, not satisfactory for the European banking industry because the amendments led to the exclusion of core deposits and an unduly complicated treatment of prepayments.

In this context, the European Commission adopted IAS 39 with derogation, commonly referred to as “hedge carve-out”, which allows European banks not to apply some of the criticised hedge accounting provisions.

In early 2004 the European Commission established a High Level Expert Group including representatives from the IASB and bank regulators to discuss possible solutions to make the standard reflect more closely the way in which many banks in the European Union carry out their asset/liability management. Following these meetings EBF undertook the development of an alternative hedging approach, the Interest Margin Hedging (IMH), to the cash-flow and fair value hedging models. This approach would have a better alignment with the underlying objectives of banks’ risk management processes and overcome the problems of core deposits and prepayments.

On 13 December, the EBF had the opportunity to present the proposal to the whole of IASB in an educational session during its board meeting. The discussion following the session provided greater clarity on the proposal and removed previous misunderstandings concerning the model and ultimately has led to an agreement on how best to move forward. Applying the existing cash flow hedging provisions to the IMH proposal appears now to be a solution thinkable; this would render the introduction of a new hedge form unnecessary and a reasonable outcome for the EBF.

Components Approach

The basic idea underlying a Components Approach to Fair Value Measurement is that a financial instrument can be viewed as a set of risk components and that some of these components can be measured separately. IAS 39 contains various implicit references to “Components Approach” but has dealt with the measurement of components on a piecemeal basis only. As a result, its current status is far from clear. Moreover, no in-depth analysis is currently available of the circumstances in which such measurement system should be made available or what its possible benefits may be. A better understanding of a Components Approach may also be helpful in the ongoing debate regarding the merits of a possible switch-over to a Full Fair Value Measurement Model and, more particularly, serve as a valid alternative to improve the quality of IAS 39 and contribute to further aligning the financial reporting standards with the risk management of entities.
These are the main messages contained in a report which a Working Group from the various European Credit Sector Associations has prepared which will be made public in 2007.

**Mutual Recognition IFRS/US GAAP**

The Commission is of the opinion that it would be appropriate to allow issuers from the US to continue to prepare their financial statements in accordance with US General Accepted Accounting Principles (GAAP) until 2009, i.e. the moment at which the US is expected to remove the requirement which is currently imposed on EU companies which are listed in the US to reconcile their financial statements with US GAAP.

In a letter to the Rapporteur of the European Parliament, the EBF took the view that the European Parliament should support the European Commission proposal.

**Fair Value Measurement and Full Fair Value**

In July 2006, the EBF set up a Working Group on Full Fair Value Measurement with a view to preparing a tentative position paper by July 2007 reflecting the range of policy and technical issues that would arise if all financial instruments were to be measured at fair value. This position paper will be based on a conceptual paper prepared in 1999 by an expert group representing a number of banking associations around the world. Attempts should be made to suggest alternatives to full fair value, such as the so-called Components Approach.

Much attention will be paid to the work of the IASB and the FASB (the US accounting standard setter) on their joint Conceptual Framework (objective of financial statements; comparability; understandability, etc.). In this respect, the Working Group has already prepared a response to the first and second chapters of the IASB discussion paper on the objectives of financial reporting and users’ needs, which was sent to the IASB in November 2006.

At the end of 2006 the IASB issued a discussion paper on fair value measurement which is open to comments until April 2007. The discussion paper indicates IASB’s preliminary views on the corresponding FASB provisions, included in “SFAS 157”. An Inter-Federation Working Group on Fair Value measurement, gathering experts from EBF and other credit sector associations (savings banks, cooperative banks and public banks) has been revived and entrusted with the task of drafting a comment letter to the IASB discussion paper. This Working Group will also prepare the banking sector’s representation at roundtable meetings which the IASB will hold in 2007 on measurement.

**EC Round Table for consistent application of IFRS in the EU**

The European Commission has set up a Roundtable for Consistent Application of IFRS in Brussels on 17 May 2006. The function of the Roundtable is to act as a forum to identify problematic accounting issues in relation to consistent application and to select issues which are considered worthwhile referring to IFRIC.

The views expressed by participants at the meeting were largely in accordance with those which had been adopted by the EBF member associations:

- Everybody welcomed the Roundtable initiative and agreed that the Roundtable should not be used as a Forum that would engage into interpreting IFRSs;
• A large majority emphasised the need for a principles-based approach and agreed, therefore, that a moderate use should be made of the filter mechanism. It should envisage referring issues to IFRIC only provided that they were widespread, of high importance and of practical relevance.

At the Roundtable, the EBF representative emphasised that consistent application of IFRS was also essential to create a level playing field between entities. He, furthermore, welcomed that the European Commission had not opted for setting up a bureaucratic structure to select the issues which will be submitted to IFRIC. He also supported the view taken by the majority at the Roundtable that a selection of issues needed to be done in a prudent and cautious way as IFRSs need to remain principles-based. In this context, he reminded the Roundtable that European business was in favour of a stable platform and that also decisions taken by IFRIC were likely to impose IT systems changes on companies.
Legal Affairs

Antitrust EU Law

Between April and July 2006 the EU Commission’s services competent for Competition law published a twofold preliminary report on the level of competition in some financial services sectors, namely payment cards, insurances and retail banking including current accounts.

As a result of a sector inquiry, the EU Commission expressed strong concerns upon what it sees as an insufficient level of competition across Europe in these areas, particularly payment cards and current accounts, pointing the finger at the industry that – the Commission claims - maintains artificially high prices for products and services to retail customers in most of the Member States.

The 2 interim reports have been submitted to a public consultation which ended in autumn, and to which the EBF responded, raising serious concerns about some of the negative conclusions, which the banks felt were drawn without adequate supportive evidence. The methodology applied to the enquiry was also seriously questioned by the industry. A final comprehensive report was issued on 31 January 2007.

Damages Action for Breach of EC Antitrust Rules

On 20 December 2005, the EU Commission published a Green Paper on damages actions for breach of the EC antitrust rules, which explores the conditions under which private parties can bring actions for damages before the national courts of the Member States for breach of the EC antitrust rules.

A draft report is due to be voted in the coming months in the EU Parliament in response to the Green Paper.

Civil and Procedural Law

Green Paper on European Bank Arrestment

The EU Commission published in October 2006 a Green Paper on improving the efficiency of the enforcement of judgments in the European Union, proposing the creation of an EU procedure for bank attachment. While the issue of analysing measures enhancing the transparency of the debtor's assets will be tackled in a separate Green Paper to be released in the course of 2007, the document published in 2006 already tackles the merit of introducing a procedure which would allow a creditor to secure a sum of money due to or claimed by him by preventing the removal or transfer of funds held to the credit of his debtor in one or several bank accounts within the territory of the European Union.

The implementation of this EU procedure would imply that banks might be obliged to freeze one or more accounts held by their client upon order of the competent enforcement authority. At this stage, no solution has been adopted to determine who would bear the related costs of the bank as third party, and how and at what stage these costs would be defined and the payment thereof done.
The Green Paper has been submitted to public consultation until 31 March 2007 and any decision whether or not to initiate legislation in this area will be subject to an impact assessment in which will be analysed the extent of the problems of cross-border debt recovery and the effectiveness of possible alternatives to European rules, according to the Commission. EBF, already involved by the Commission in the debate on this matter, will contribute to the consultation and follow the progress of the debate in 2007 as well.

**Conventions on the Law applicable to Contractual Obligations (Rome I)**

The proposal for a Regulation on the law applicable to contractual obligations (‘Rome I’) published by the EU Commission on 15 December 2005, has started in 2006 its legislative process with a first analysis by the European Parliament’s committee for Legal Affairs in autumn.

The Austrian socialist Maria Berger, in charge with the file at the EU Parliament, has taken charges at national level and left the position open for a new Rapporteur. The debate should restart in 2007.

The proposed Regulation defines the rules governing the law applicable to most contracts (such as consumer contracts, employment contracts, leases, carriage, credit or distribution contracts, etc) concluded by individuals or firms in Europe, which contain an international element.

**EU Contract Law and the Review of the Consumer Law Acquis**

The project of building a Common Frame of Reference (CFR), launched by the EU Commission on 15 December 2004, progressed during 2006 with a series of workshops gathering experts in the area of European Contract Law (CFR-Net) and academics in charge of drafting relevant basic definitions for general Contract Law as well as for specific contracts.

The ultimate goal of this project being to constitute a set of common definitions and to make them available to the EU legislator for review of existing legislation and addressing future law-making, it has been clarified during workshops that the exercise undertaken by both researchers and experts did not aim at drafting an EU Civil Code at this stage. Rather, following the political guideline given by the EU Council in 2005, the work of the stakeholders and academics was reoriented towards a more focused review of the acquis communautaire in the sector of Consumer Protection Law as the first and foremost objective of the CFR.

EBF has been following the work on the project and taken part in most of the workshops held since the launch of the project. The EU commission has issued a Green Paper on the review of the Consumer Law acquis on 8 February 2007 and will submit it to public consultation until May 2007.

**Other Initiatives under The Hague Programme on strengthening Freedom, Security and Justice in the EU**

The Regulation introducing a European Order for Payment (EPO) was adopted in October 2006 and published in the Official Journal on 12 December. It introduces an EU level instrument available for uncontested claims for both cross-border and domestic cases, in order to obtain an enforceable decision of payment.

The proposal for Regulation establishing a European Small Claims Procedure was also debated during 2006 and reached the conclusion of the first reading in December. It provides for several
procedural simplifications to speed up litigations in cross-border cases for civil and commercial matters where the total value of a monetary or non-monetary claim does not exceed EUR 2000. The new procedure would be enforceable in all Member States and, according to the amended version voted by the EU Parliament, should apply only to cross-border cases rather than be available also for claims within individual Member States as originally proposed by the Commission. This amendment reflects discussions with the Council on what would be acceptable to Member States.

The Council will have to elaborate its common position in the course of 2007.

Company Law and Corporate Governance

Shareholders Rights

The proposal for a Directive published in January 2006 was debated in parallel by both the Council and the EU Parliament in the course of the year, with a view to adopting it after a single reading. On 31 January 2007 the competent EP committee adopted a report that is due to be voted in the European Parliament’s plenary in February 2007, based on a compromise text agreed with the Council.

EBF took part in the various stages of the debate and generally welcomed the approach adopted by both the EU Parliament and the Council. The proposed directive envisages introducing a ‘record date’ mechanism for the identification of the shareholders allowed to exercise voting rights at an issuer’s general meeting (annual or extraordinary). This mechanism should permit to avoid shares blocking which is detrimental for markets.

Consultation on the overall Action Plan’s Remaining Issues

The consultation that was closed at the end of March 2006 on the future priorities for Company Law and Corporate governance in the EU revealed a general sentiment of ‘regulatory fatigue’ across stakeholders that recommended the EU Commission to concentrate on the implementation of the measures already adopted before addressing new issues.

A certain degree of consensus was however expressed by stakeholders, among which EBF, on a few restricted areas where an EU intervention might be seen as beneficial, e.g. the squeeze-out/in mechanism, while the debate on introducing a ‘one share-one vote’ mechanism might be reopened by the Commission itself in the coming months.

Legal Framework for Securities

The Hague Convention on the law applicable to certain rights in respect of securities held with an intermediary

Following the recommendation in 2003 from the EU Commission to the Council to sign The Hague Convention, and the opinion of the European Central Bank calling upon the Commission to conduct an impact assessment from both a legal and economic perspective, the EU Commission released in July 2006 a document covering only the legal aspects based on the mandate received by the Council.
In its document, the Commission recommended, among 3 available options, the one that in its view represents still the best solution, namely the signature of the Convention and the subsequent amendment of the EU directive directly affected – the Financial Collateral Arrangements Directive 2002/47/EC and the Settlement Finality Directive 1998/26/EC – whereby ensuring that within securities settlement systems the choice of law given to contractual participants in the systems is limited to the one established by the system itself. This would secure the stability of EU systems and diminish the legal risk.

While in July 2006 the US and Switzerland signed the Convention, no agreement has been reached so far within the EU Council on the way forward.

EBF members agreed to tackle this file from a country-based perspective.

**The Future UNIDROIT Convention**

The International Institute for the Unification of private Law (UNIDROIT) continued the debate on the amended draft Convention on the substantive law applicable to intermediated securities during 2006. Two further intergovernmental sessions were held in Rome in April and November respectively.

At this stage, the diplomatic session gathering representatives from member countries has been postponed to 2008, while during 2007 the debate will be taken further to finalise a consensual text among governmental experts.

Since February 2006 the EU Commission has been given the mandate by the Council to negotiate the content of the draft convention to the extent the latter covers matters falling into the competence of the European Community, namely the regimes for collateral and settlement finality already regulated at EU level by Directive 2002/47/EC and 1998/26/EC respectively.

EBF as observer at UNIDROIT has kept following the debate and will contribute also in 2007.

**Consumer Affairs**

**Proposal for a Directive on Credit to Consumers**

Under the rotating Council Presidency, taken over during 2006 by Austria and Finland respectively, the debate on the proposed directive was quite lively and is now led by Germany until end of June 2007.

Member States faced many difficulties in achieving any consensus on this proposal, in particular to the extent the latter was seen as a measure requiring some of them to lower their current national consumer protection. While expressing doubts upon the mutual recognition clause, inconsistent in their view with a full harmonisation approach, Member States proposed at different stages an increasing number of provisions granting them the discretion of departing from the directive’s original structure.

In December 2006 the European Parliament commissioned an economic study of the expected impact of the 2005 proposal on the market. The results of such a study are expected by April 2007 and may help the legislator make the best policy choice with respect to the stated aims of the proposal.
EBF, together with the European Banking Industry Committee, has been keeping a proactive role on this file and addressed in particular the Council at several occasions requesting a proper impact assessment of the provisions before any decision be taken. Key measures of this proposal have to be amended if the directive has to deliver a new framework instrumental to market integration.

**Mortgage Credit**

During 2006 as a follow-up to the Green Paper on the Integration of Mortgage markets in the EU, the Commission set up two experts group, one dedicated to funding techniques and influence from primary and secondary markets functioning on the integration of mortgage markets in Europe, the other focussing on consumer protection issues and gathering representatives from both consumers and industry engaged in a Dialogue with the Commission.

The two groups released two reports in December 2006 and in January 2007 respectively. The Funding expert group issued a number of recommendations to the Commission indicating some areas where more can be done to achieve better functioning and deeper integration, e.g. securitisation. It highlighted also the obstacles to the funding activity represented by fragmented national regimes for access to land and credit registers or for procedures of collateral realisation in case of default.

The Consumer-Industry Dialogue report indicated to the Commission the respective positions and expectations on a number of key issues, namely the pre-contractual information, the base and method for calculation of the Annual Percentage Rate of Charge, the duty to inform and advise the customers. While no consensus positions were achieved, a number of interesting points were raised concerning the ESIS and the Code of Conduct on pre-contractual information on Home Loans, adopted and agreed in 2001 between industry and consumers. These points could be further explored in the future whenever envisaging the review of the Code.

The 2 reports will be considered by the EU Commission when drafting the White Paper expected in June 2007. It should contain policy guidelines on the way forward, to be implemented in ad hoc measures. The Commission committed to submit any measures to be proposed in the White Paper, to an impact assessment before putting them into practice.

**Physical Security**

For the fourteenth consecutive year, the EBF published in October 2006 its Report on Bank Robberies and other Bank Raids. The Report (limited circulation) contains figures on bank raids, risk rates, modus operandi, etc..., and gives an overview of the situation regarding robberies and respective security arrangements as of the end of 2005.

The general conclusion reached in the Report is that there were many improvements to be seen among EBF Members for 2005. Those improvements can certainly be attributed to the fact that European banks have increased and improved security measures, and reorganized themselves in order to better counter the criminals.

However, some tendencies are still worrying: the violence of certain modus operandi and the means used by the perpetrators such as: threatening of personnel and subcontractors, kidnapping, gas attacks, and use of explosives...
Fight against Money Laundering & Terrorist Financing

Third Money Laundering Directive

The EBF generally welcomed the third Anti-Money Laundering Directive adopted on 25 November 2005 and which should be implemented by Member States as of 15 December 2007. A common position on behalf of the European Banking Industry Committee (EBIC) was published both on the third AML directive as well as on its implementing measures.

In the Directive, the introduction of the “risk-based” approach was particularly welcome, as it will guarantee a focused and efficient fight against money laundering and terrorist financing, without disproportionately lumbering the banking industry with unworkable and impractical obligations. Concerns remain however about the approach taken on beneficial owners and “Politically Exposed Persons” (PEPs).

Regarding the implementing measures (to be implemented at Member States level on 15th December 2007), the EBF/EBIC believe that they would restrict the flexibility required for the application of the risk based approach.

As it seems that the adoption of further implementing measures concerning enhanced customer due diligence would progressively restrict the room for manoeuvre which banks need in order to implement the risk-based approach on a meaningful and pragmatic basis, the EBF/EBIC clearly answered in July 2006 that European Banks were opposed to the adoption of further implementing measures on enhanced CDD at EU level.

EU Implementation of FATF Special Recommendation VII on Wire Transfers

The EU regulation on the information on the payer accompanying transfers of funds (EU transposition of FATF Special Recommendation VII on wire transfers) was published on 8 December 2006. It establishes the information requirements to accompany the transferring of funds in order to prevent money laundering and the financing of terrorism. It is directly applicable as of the 1st January 2007 (sanctions for non compliance apply as of 15 December 2007).

The EBF Secretariat provided input to the European Payment Council (EPC) which published official positions on the Commission’s proposal for a regulation. The following points in particular were expressed:

There was a need for the text to stay as close to the content and wording of the original text of the FATF as possible, in particular regarding the definitions.

The text should try to limit the impact on existing payment processes and focus on the most cost efficient methods for achieving the desired ends.

It is crucial to make sure that the text stays consistent with other existing EU legislation, in particular with the third Anti Money Laundering Directive but also with existing data protection laws.

The EBF provided input to the drafting of the EPC guidance notes to the European banking sector published in December 2006.
Co-operation with the FATF

The Financial Action Task Force (FATF) started in December 2005 a dialogue with the banking and securities industry with a particular emphasis on issues and concerns of practical nature that resulted from the implementation of the 40+9 FATF Recommendations: A principle of consultation on a systematic basis when creating new standard has been installed.

The EBF, as a member of the International Banking Federation (IBFed) is one particular interlocutor of this dialogue. It has representatives in the working group newly established with representatives from volunteer FATF members and observers as well as from the banking and securities sectors to consider the issue of a risk-based approach to AML/CFT implementation.

Social Affairs

Portability of Pension Rights

A task force of experts from both the Banking Committee on European Social Affairs (BCESA) and the EBF Financial Markets Committee set up an EBF position on the Commission’s proposal for a directive on the portability of pension rights.

From a social point of view, the EBF supported the general framework of the draft directive, namely the facilitation of the free circulation of workers. However, from a business perspective, the Federation believed that the practical application of the text needed more attention. It stressed in particular that it is fundamental to ensure that the draft directive does not harm the development of supplementary pensions.

Social Dialogue: Demography

The BCESA, together with the European Savings Banks Group, the European Association of Cooperative Banks and the Trade Union UNI-Europa (the European social partners on banking) started in 2006 a project on demography in the banking sector. The objective of the project was to collect data in order to find out whether the banking sector would face challenges whilst adapting itself to the demographic changes when recruiting staff or retaining older staff members.

A group of experts analysed data collected on demographic structure and a joint questionnaire was sent to European banks. A catalogue of innovative initiatives was prepared on the basis of the data collected.

On 1st December 2006 a conference was organised in Brussels on the impact of demography on human resources policies in the banking sector where the findings of the data collected were discussed.

At the end of the process a joint statement could be signed between the European social partners on banking.

Social Dialogue: Enlargement

After successful projects run in the accession countries from 2000 till 2003 during which social partners on both sides exchanged information and experiences on national industrial relations'
structures in the banking sector and on the European Social Dialogue, the Sectoral Dialogue Committee for the Banking Sector finalized in 2006 a project aiming at enhancing the knowledge of the social partners of "new" Member States (Germany, Austria, Italy) of industrial relations practices in the "old" Member States (Slovakia, Czech Republic and Hungary).

Bilateral meetings between social partners of the "new" Member States and the social partners of the "old" Member States were held during which the latter demonstrated in a practical way to the former how industrial relations are organised in the banking sector. A conference was held in Brussels in January 2006 in order to discuss the findings of the bilateral meetings and to draw conclusions from these findings, which were generally very positive and would potentially be repeated with other countries in the future.

Depending on the interest of new Member States, a new project could be organized with new and future Member States. Multilateral meetings rather than bilateral meetings would be favored.

**International Affairs**

**Liberalisation of Financial Services**

Several meetings between the European Commission (DG Trade) and the EBF Committee for International Affairs allowed bankers to take stock of the current WTO negotiations and to reassess the priorities of the European banking sector for further liberalisation.

In addition, EBF President Michel Pébereau and Secretary General Guido Ravoet met Commissioner Mandelson and his services together with CEA President Gérard de la Martinière and Secretary General Daniel Schanté in April 2006. The meeting was the occasion to stress that European banks are very keen that WTO by way of process for financial services delivers important advances in terms of market access and liberalisation. It was re-stated that the negotiations on further liberalisation of banking services should continue both in the WTO and bilateral negotiations.

An EBF delegation took also part in visits organized by the European Services Forum (ESF) and the Financial Leaders Working Group (FLWG) to WTO officials in Geneva in order to convey this message by presenting its revised list of barriers resembling a catalogue of market access problems and a list of priority countries for their banks. An on-going exercise throughout the years consists of keeping the barriers list up-to-date.

**Financial Sanctions**

The European Banking Industry Committee (EBIC) had expressed concerns with the Commission (DG RELEX and DG TRADE) about sanctions taken by the US authorities under the USA Patriot Act. Through their extra-territorial effects, these measures could have a serious impact on European banks.

Contacts are still taken with the European Commission in order to ensure that as a matter of general principle more coordination is developed at international level in the area of financial sanctions.
Regulatory Dialogues

The EBF Secretariat provided the European Commission with information regarding existing regulatory problems for European banks in China in preparation for a visit of DG MARKT officials to China in May 2006.

On the basis of contributions from the EBF Committee for International Affairs (CFIA), the Secretariat drafted a list of regulatory barriers encountered by European banks in China. The document stresses in particular that foreign banks' market potential in China is being heavily restricted by administrative rules. Majority participations in domestic banks and joint-venture securities firms are not allowed. Branches of foreign banks are subject to higher capital requirements than Chinese banks. In addition, the approval of additional branches of one foreign bank is seriously delayed by administrative procedures.

Cooperation with the International Institute of Bankers

The Federation has continued its cooperation with the International Institute of Bankers (IIB) consisting of an early warning system regarding US banking/securities legislation of interest to European banking associations and their member institutions. The objective of the system put in place is to enable the EBF to properly influence the legislative process in the US in the interests of European banks. Under the Early Warning System, the IIB informs the EBF of any legislative proposal in US Congress that has a reasonable prospect of becoming law and which has possible implications for European banks.
Payments

EBF co-operation with the EPC in the SEPA project

The EBF was very active throughout 2006 within the framework of the activities of the European Payments Council (EPC).

The EBF provided the Secretariat for the Legal Support Group (LSG), including the Payment Services Directive Task Force and for the SEPA Credit Transfer Working Group (SCT), including the Electronic and Mobile payments Task Forces.

Within the ambit of the LSG, work concentrated on providing support to the preparation of the SEPA Credit Transfer and Direct Debit Scheme Rulebooks and the SEPA Cards Framework. Extensive high level comments as well as detailed comments of a legal nature were provided to the Payment Instrument Working Groups and an issue-spotting function in relation to questions that may carry legal risk was performed.

Support was also given to work involving external legal council covering the legal examinations of the Rulebooks as well as the definition of the adherence agreements procedure and relevant documentation.

Regarding European legislation the LSG provided extensive input to the discussion regarding the Payments Directive, which was voted by the European Parliament Economic and Monetary Affairs Committee in September 2006 and is expected to be finally approved in co-decision around March/April 2007. In addition, work concentrated on the Regulation proposal regarding information accompanying wire-transfers which was officially endorsed by European Parliament and Council at the end of 2006.

The SEPA Electronic Credit Transfer Working Group (SCT) has been responsible for drafting the SEPA Credit Transfer Rulebook. The final Rulebook Version, based on which SEPA Credit Transfers will be offered to the market in 2008, was approved.

In the field of E and M-payments results of their studies and recommendations were proposed to the EPC and a strategy group will be set up in early 2007 to define ‘the way forward in E and M-payments’ as part of the SEPA project.

Target Working Group

In 2006, the TARGET WG (TWG) group continued the dialogue with the Eurosystem. An enhanced cooperation structure was put in place as from May 2006. Two joint Task Forces comprising of both, Central Bank representatives as well as market participants from TWG were created to address operational issues and issues related to testing and migration of banks. The Task Forces meet on a regular basis. Progress has been achieved on many issues. The Task Forces report to the joint TWG/Working Group Target 2 (of the Eurosystem) Plenary with decision making power. The Plenary addresses high level and high priority issues and monitors the issues allocated to the respective Task Forces in the work plan. The Plenary met three times in 2006.

After extensive consultations between the Eurosystem and the banking community the following progress was achieved:

- The Eurosystem amended the proposed pricing scheme;
• Decision as regards to the group definition was taken;
• National Migration profiles and Ancillary Systems’ profiles were enhanced;
• Testing scenarios and related procedures for connectivity and interoperability tests were completed;
• Operational issues such as delayed closing procedures concept of (very) critical payments, failure of Target 2 participants, settlement times of Ancillary Systems were addressed in the Operations Task Forces in cooperation with Ancillary Systems’ representatives;
• Educational papers on lump sum payment, balance of payments reporting and indirect participation and addressable Bank Identifier Codes were prepared by the Task Forces approved by the TWG;
• TARGET 2 Participation Framework was clarified;
• Progress was made as regards unpublished Bank Identifier Codes, business functionality of these accounts should be limited.

In 2007 TWG will continue to cooperate with the Eurosystem according to the agreed work plan and processes in order to ensure that all the major players are ready to migrate to TARGET 2 on time.
EBF PR & Communications

Events

Each year sees new challenges for EBF PR and Communications policy. 2006 led to the organisation of unforeseen events, such as two conferences on the issues of Qualified Intermediaries for one and the question of the VAT on financial services for the other. The latter was organised jointly with the European Commission. Both conferences gathered between 350 and 400 participants.

EBF also organised the first IBFed Forum, on the occasion of the Annual Board meeting of the International Banking Federation. This Forum focused on issues related to Financial Crime and brought together high level speakers and participants from all over Europe, the US, Japan, Canada and Australia.

Usual EBF landmark events, such as the Commission Dinner, an informal gathering of Commission contacts, and the EBF Annual Cocktail were also organised and proved very popular with participants.

Furthermore, EBF participated in several events it sponsored, generally via contra deals with conference organisers. EBF representatives spoke at a number of conferences throughout Europe and attended key events organised by other financial services leaders.

Agreements were also made with the Maleki Group, organiser of the Frankfurt Euro Finance Week. A full day dedicated to MiFID was organised jointly with the Maleki Group in November.

Publications

Reports prepared by EBF were published and circulated through the usual channels, mostly in electronic format, in order to facilitate further circulation to members of members, i.e. individual banks in all Member Associations. The reports on Bank Robberies or on Measures against Money Laundering are always popular with end-users and with the press.

For the first time, EBF entered in a co-operation with Newsdesk Publishing, which coordinated on its behalf the publication of the first Yearbook, entitled “Financial Services and Payments in the 21\textsuperscript{st} Century”. This publication was prepared, printed and circulated at no cost to EBF but proved a very useful PR tool. Its wide distribution (some 8000 copies) throughout the EU ensured good visibility to the Federation.

Image

On 1st November 2006, EBF launched its new image. A brand new logo was revealed, together with an entirely new Web site, stationery and general image policy. A new acronym is now in use, to reflect the overall use of English in EBF communication.

Press relations

Throughout 2006, a number of press releases were issued and specific press contacts established and developed. A core number of journalists have regular contacts with the EBF and several of them refer to EBF for background information on key issues as well as for quotes on burning...
topics. A press review was distributed to Executive Committee members in June and December, showing a broad press coverage in various countries and languages on most of the key issues dealt with at European level.

**Issue Management**

Pan European communications issues were brought to the agenda of the EBF, such as the fight against child pornography on the Internet. The European banking industry declared its support to the US initiative of a coalition of financial services against this form of crime and followed up by participating in high level meetings on the issue at European and global level. A common position of the European banking industry is currently in preparation.

**Communications Committee**

The Committee met twice in 2006 and discussed CSR issues and possible developments for a joint publication. It also continued to analyse the image problem related to the banking sector at large. Members compared experience and solutions related to current communication issues in the various countries represented and exchanged information by means of pan-European surveys on specific questions of common interest (these surveys remain for internal use only). Finally, the Communications Committee supported the EBF communication unit in the management of specific communication issues such as the one mentioned above. Common approaches were devised and agreed on pan-European issues.