A. Further development of the new supervision framework

Introduction

In the wake of the crisis, the framework for supervision of the financial system underwent a thorough overhaul in order to strengthen the sector, improve governance, and thus provide better safeguards for financial stability. During the year under review, the transposition and gradual implementation of the measures resulting from that overhaul continued at both European and Belgian levels.

With the entry into force of the single supervisory mechanism (SSM) in November 2014, the first pillar of the banking union has become a reality. Before that, the banking sector had been subjected to a comprehensive assessment (CA). The adoption of European legislation on recovery and resolution, the intergovernmental agreement and the establishment of a single resolution fund opened the way to the second pillar of the banking union, namely the single resolution mechanism (SRM). During the same year, some of the provisions of this European legislation were transposed into Belgian law by the Banking Law, and the Bank was designated as a resolution authority. As for the third pillar, i.e. the common deposit guarantee system, the EU Directive on the subject is to be transposed into Belgian law by the summer of 2015.

The various Banking Law provisions on such matters as structural reforms, governance, and remuneration policy were also implemented. In addition, the Bank continued to implement the provisions on liquidity and capital laid down by the Basel Committee on Banking Supervision and those of the Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR). The various items on the agenda for reform of the banking sector are described in section 1 of this chapter.

Turning to the insurance sector, preparations for the transition to Solvency II continued, as described in section 2 of this chapter. In that connection, the European Insurance and Occupational Pensions Authority (EIOPA) arranged stress tests to assess the sector's resilience in view of the introduction of the new solvency requirements in a context of persistently low interest rates.

The Regulation on central securities depositories (CSD Regulation) brought in common prudential rules for CSDs. During the course of 2014, international guidelines were also adopted on the preparation of recovery plans for financial market infrastructures. These measures designed to strengthen the sector's resilience are explained in more detail in section 3 of this chapter.

At the various meetings held in 2014 by the Bank's Board of Directors in its capacity as macroprudential authority, the emphasis was on monitoring systemic developments and analysing the possible use of macroprudential instruments (see section 4 of this chapter).

Finally, during the year under review, special attention focused on the assessment by the Financial Action Task Force (FATF) of the Belgian regulatory and prudential provisions for combating money-laundering (section 5.1) and on the auditor approval programme (section 5.2).

1. Banks : progress with the banking union and implementation of Basel III and the Banking Law

1.1 The single supervisory mechanism

1.1.1 Entry into force of the single supervisory mechanism

During the year under review, the ECB and the national competent authorities (NCAs), including the Bank, were engaged in preparing the single supervisory mechanism. Under the SSM Regulation (1), the ECB took on the tasks entrusted to it on 4 November 2014. The entry into force of the SSM meant the transfer to the ECB of a substantial part of the Bank's responsibilities, notably in regard to banks considered significant.

On 4 September 2014, the ECB published two lists, one comprising significant banks and the other comprising less significant banks. Seven Belgian banking groups were included in the list of significant banks. Six of them are significant because of their size : AXA Bank Europe, Bank of New York Mellon (BNY Mellon), Belfius, Dexia, Investar BVG (Argenta) and KBC. Banque Degroof was designated as significant on account of the significance of its cross-border activities. The Belgian subsidiaries and branches of banking groups established in other countries participating in the SSM have the same classification as the banking group to which they belong. For instance, BNP Paribas Fortis Bank and ING Belgium are among those considered significant.

During its first year of operation, the ECB Supervisory Board, created in January 2014, concentrated on preparations for its task, namely establishing a legal framework, drawing up the supervisory manual, classifying banks as significant or less significant, conducting the comprehensive assessment and preparing for the first set of decisions on capital under the SSM.

Following a public consultation, the ECB adopted the Framework Regulation on the SSM (2). This Framework Regulation defines the methodology for classifying institutions as significant or less significant, and forms the legal basis for organising the joint supervisory teams (JSTs) in charge of microprudential supervision, and the inspection teams. It specifies the cases in which institutions subject to supervision can apply to the Bank or the ECB. It also establishes the general principles which are to form the basis of the supervision procedures, paying particular attention to respect for the right to be heard, the right of access to the files, and the ECB's obligation to state the reasons for its decisions, as well as the general principles to be taken into account in organising the sanction procedures. In addition, the SSM Framework Regulation reiterates the basic principles underlying the cooperation between the ECB and the national competent authorities, namely the duty to cooperate in good faith and the general obligation to exchange information. Finally, the Framework Regulation notes that the ECB can request the national authorities to make use of their powers.

The ECB's powers in respect of significant banks are determined by the list of tasks set out in the SSM Regulation. In addition, the ECB only has competence to apply the European legislation or the rules derived from it. That is

(1) Regulation (EU) No. 1024/2013 of the Council of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.
(2) Regulation (EU) No. 468/2014 of the European Central Bank of 16 April 2014 establishing the framework for cooperation within the Single Supervisory Mechanism between the European Central Bank and national competent authorities and with national designated authorities (ECB/2014/17).

the case, in particular, for the single rulebook defined by the CRD IV and the CRR [1], including its implementation at national level. In that respect, the gradual harmonisation of the national discretion permitted by the CRD IV and the CRR for supervisory authorities will be a major challenge for the SSM. The ECB is bound by the European implementing legislation, prepared by the European Banking Authority (EBA). The national authorities remain responsible for checking compliance with various rules in certain areas, notably the rules on consumer protection, prevention of money-laundering, covered bond issuance and structural reforms.

The ECB gave significant banks the option of using English for communicating with it. Six Belgian banking groups chose to do so, which does not imply renunciation of their right to revert to their national language subsequently.

The ECB's Regulation on supervisory fees [2] determines the arrangements for covering its costs incurred in supervising significant and less significant institutions. The expenditure of the national competent authorities in connection with the SSM remains subject to a national fee regime.

In accordance with its accountability obligation, the ECB reported back every three months to the European Parliament, the Council and the Commission on the progress made in the operational implementation of the SSM Regulation. This preparatory stage will also be covered in the first annual report of the SSM, to be published in the spring of 2015.

1.1.2 Organisational structure and supervisory practices of the SSM and implications for the Bank

Organisational structure of the ECB

In order to fulfil its prudential supervision tasks, the ECB has defined its organisational structure by segregating the departments responsible for supervising institutions from the departments providing supervision support. It thus set up three departments for the supervision of institutions. They share responsibility for overseeing the banks under the SSM according to the significance and risk profile of the institutions.

While the Directorates General (DG) Microprudential Supervision I and Microprudential Supervision II deal with the day-to-day prudential supervision of institutions considered significant (around 30 and 90 respectively), DG Microprudential Supervision III is responsible for the indirect prudential supervision of institutions considered less significant. The work of these three Directorates General is supported by DG Microprudential Supervision IV, which carries out specialised, horizontal tasks relating to all credit institutions subject to SSM supervision, and supplies expertise on specific aspects of supervision. One of the tasks of DG IV is to ensure consistency between the various approaches of the JSTs. It comprises various services, such as the Risk Analysis Division, responsible for the horizontal analysis of risks in the euro area banking system, the Supervision Policy Division which helps to draw up regulatory prudential standards for all banks on the basis of the Basel agreements and the EU Directives, the Methodology and Standards Development Division, responsible for devising and regularly updating the supervision methodologies, and the Internal Models and Centralised On-Site Inspections Divisions which will be separated from the supervision units and will be responsible respectively for validating the internal models that institutions use to calculate their capital requirements, and for conducting and coordinating on-site inspections.

In order to ensure good coordination in these matters between the ECB and the national competent authorities (NCAs), it was decided to form networks of experts for each of the DG IV Divisions. The aim of these networks is to exchange information and pool experience in order to establish good practices to be applied for each subject within the SSM.

A new approach to supervision

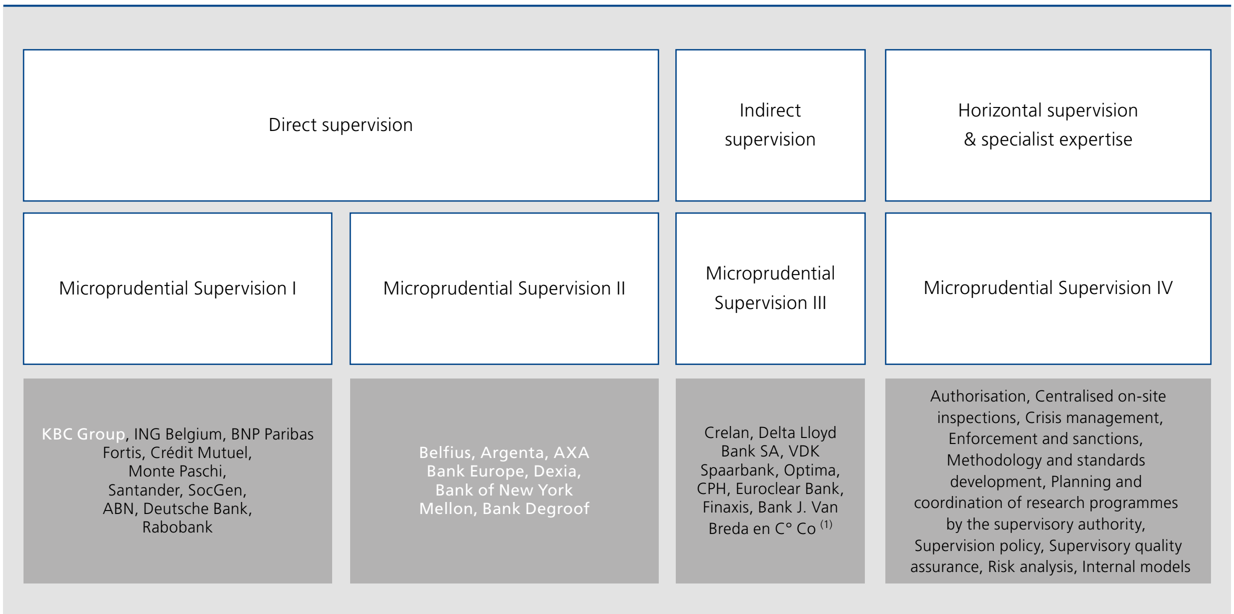
One JST was formed for each significant banking group. The JST is responsible for carrying out the prudential supervision of the designated institution, and coordinates the supervision activities with the national competent authorities concerned. Each JST is managed by an ECB coordinator [3] and comprises members appointed by the NCAs of the countries where the credit institutions, their subsidiaries and branches are established. The size, overall composition and organisation of the JST is geared to the size, complexity, business model and geographical distribution of the credit institution concerned. The national supervisory authorities which are members of the JSTs work under the direction of the ECB coordinators and

(1) Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC and repealing Directives 2006/48/EC and 2006/49/EC and Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

(2) Regulation (EU) No. 1163/2014 of the European Central Bank of 22 October 2014 on supervisory fees (ECB/2014/41).

(3) Generally speaking, the JST coordinator does not come from the country where the supervised institution is established.

CHART 1 ORGANISATION OF THE SSM SUPERVISION UNITS AT THE ECB AND IMPLICATIONS FOR BELGIAN BANKS



Sources: NBB, ECB.

(1) ABK Bank CVBA, Banque Delen & de Schaetzen, Banque Eni SA, Byblos Bank Europe, Centrale Kredietverlening, Citibank International plc, Datex, Dierickx, Leys & Cie Effectenbank, Euroclear SA, Europabank, FCE Bank plc, Hoist Finance, HSBC Bank plc, ICICI Bank UK plc, J.P. Morgan Europe Limited, J.P. Morgan International Bank Limited, Keytrade Bank SA, Shizuoka Bank (Europe) SA, The Royal Bank of Scotland plc, United Taiwan Bank SA, van de Put & C°, Effectenbank – Banque de titres.

Note: The banks listed in white are those which had been supervised by the Bank at the highest level of consolidation before implementation of the SSM (home supervision). The banks mentioned in black concern branches or subsidiaries of foreign banks which were subject to supervision by the Bank at sub-consolidated level (host supervision).

on the basis of the methodologies and work programme adopted at ECB level. The sub-coordinators appointed by the NCAs assist the JST's ECB coordinator in the day-to-day supervision of credit institutions considered significant, and also pass on the views of the NCAs concerned.

Close collaboration between the ECB and the NCAs is crucial to ensure the success of the SSM, particularly in view of the NCAs' supervisory expertise and the need to continue improving supervision practices and rules.

For some assignments and for more specific tasks, the JSTs can call on the assistance and expertise of the horizontal and specialist divisions of DG Microprudential Supervision IV, e.g. in regard to the validation of internal models, appraisal of recovery plans, and on-site bank inspections.

Progress made in supervisory practices

Much of the work concerning the harmonisation of supervisory practices related to the methodologies that the JSTs are to use for risk assessment and for evaluating the adequacy of the solvency and liquidity position. The cornerstone here is the Supervisory Review and Evaluation Process (SREP).

The SSM SREP encompasses the processes, procedures and methods for supervising significant and less significant institutions, and conforms to the EBA's guidelines on the SREP [1]. The SREP assists the supervisory authority in taking decisions on capital and liquidity requirements or on any other prudential measure in relation to individual institutions, and makes a useful contribution towards determining the minimum level of supervision and the Supervisory Examination Programme (SEP).

From 2015, the SSM SREP will replace the analyses and methods of the national SREP. Nonetheless, pillar 2 decisions for 2014/2015 will still be based on national SREP applications. However, banks which have proved short of capital in the stress tests conducted as part of the comprehensive assessment are required to take the practical measures necessary in regard to capital in order to eliminate any shortage (see in this connection part A, section 1.4.1, which also describes the national SREP policy). The switch to the SSM SREP in 2015 could mean changes to the pillar 2 requirements for credit institutions.

For each significant credit institution, the SREP comprises three dimensions. The first is the Risk Assessment

(1) Final Guidelines on SREP methodologies and processes, 19 December 2014.

System (RAS), namely the methods of risk assessment applied by the supervisory authority and the latter's continuous analysis of the institution's performance and risks. The RAS generates a general risk score for the institution and consists mainly of analyses concerning (i) the business model (evaluation of the institution's viability and permanence), (ii) internal governance and risk management (quality and effectiveness of these two elements and the institution's data processing and reporting infrastructure), (iii) quantitative and qualitative aspects of capital risks (including credit risk, market risk, interest rate risk and operational risk) and (iv) quantitative and qualitative aspects of liquidity risk within the institution.

The second dimension covers the periodic quantification of the capital and liquidity requirements. The minimum prudential requirements for the capital and liquidity of each institution are established on the basis of the RAS observations and the benchmarks defined by quantifying the risks and making comparisons between institutions in the euro area, and by analysing the internal capital adequacy assessment process (ICAAP) and the Internal liquidity adequacy assessment process (ILAAP) established by each institution.

Finally, decisions on capital and liquidity and on any supplementary prudential measures are taken and communicated at least once a year on the basis of the supervisory findings, the quantification of the capital and liquidity, and the economic context.

For the calibration of the indicators used in the RAS and for the definition of the benchmarks and risk quantification, the ECB has already organised various data-gathering exercises in the euro area, in addition to the standard reporting. It has also conducted field tests to stabilise and refine the SREP methods and their calibration, and to examine the general outcomes before finalising the SREP instrument.

Implications for organisation at the Bank

In view of the scale of the ECB's tasks, it is important to ensure that the Bank has the optimum organisational structure and takes account of ECB practices. In that context, the Bank made various changes to its internal organisation during the year under review, while endeavouring to make use of the existing structures wherever possible, as described in the Report 2012. Those adjustments are thus intended to ensure a degree of organisational consistency with the ECB's chosen policy and, more fundamentally, to guarantee the efficiency of the structures so that the meetings at SSM level can be properly monitored and prepared.

Within the SSM, a distinction was made between continuous supervision and on-site inspections. As explained in the Corporate Report 2014, that distinction led the Bank to modify the organisational structure of its supervision teams. Thus, the teams of inspectors were grouped in the horizontal Service for Operational Functions, which also includes the team in charge of model validation and monitoring, and the team responsible for IT-related risks. The supervisors at the Bank who are members of the JSTs, including the JST sub-coordinators, were grouped in the Prudential Supervision of Banks and Stockbroking Firms Service. This Service was also divided into sub-entities, distinguishing between significant and less significant institutions, while taking account of the risk profile and business model of the various institutions (for more details, see chapter B, section 2.2).

In addition, to optimise the preparation of the meetings of the ECB Supervisory Board and Governing Council in prudential matters, and to provide for appropriate transversale monitoring of the cases taken up by the ECB, the SSM policy group unit was set up within the Prudential Policy and Financial Stability Service. That unit also receives the support of the International and Eurosystem Coordination Service, which coordinates the preparation of the Supervisory Board meetings and the monitoring of written procedures and cases relating to institutional aspects of the SSM. In addition, the SSM Risk Committee was established to ensure consistency between the activities of the JSTs and those of the various DG IV networks. This Committee assists the Bank's Board of Directors in matters relating to the SSM.

1.2 Comprehensive assessment

1.2.1 Objectives and components of the comprehensive assessment

General framework

During the final quarter of last year, the ECB and the national supervisory authorities (including the Bank) completed a vast exercise – the comprehensive assessment (CA). This exercise, conducted before the entry into force of the SSM, involved a full appraisal of the strengths and weaknesses of the large euro area banks. The CA was essential to ensure the credibility of the new single supervisory mechanism.

The CA had three aims: to increase transparency by improving the quality of the available information on the situation of the banks, to strengthen the banking system by identifying and implementing the measures necessary to guarantee solvency, and finally, to boost confidence in Europe's credit institutions. These conditions will enable the sector to provide more effective support for economic growth.

The assessment was based on two complementary pillars: an asset quality review (AQR) and stress tests. These two main elements were supplemented by a join-up exercise to incorporate the AQR results in those of the stress tests and thus ensure the CA's overall consistency.

The exercise was coordinated by the ECB and based on a harmonised methodology designed to promote convergence in the definition of concepts and prudential rules, and in supervisory practices. Despite that harmonisation, comparisons of results between countries must be treated with caution since the CA permitted the maintenance of certain regulatory options which are allowed for the time being under the European Directives, particularly in regard to the definition of the capital.

As the national supervisory authority, the Bank was closely involved in this exercise, as described in chapter B, section 2.2. The stress tests required close interaction between the banks – which had to carry out this exercise themselves – and the national supervisory authorities, such as the Bank, responsible for the initial quality control in direct contact with the credit institutions and the ECB. The ECB was also responsible for confirming the final outcome of the tests and determining whether corrective measures were needed in the event of inadequate capital. Altogether, around 400 people took part in conducting the CA in Belgium, excluding the resources that the financial institutions themselves had to use in order to carry out this exercise, which was very demanding in terms of data and documentation.

The 130 groups taking part in the CA included six Belgian institutions, namely AXA Bank Europe, Argenta, Belfius, Dexia, KBC Group and Bank of New York Mellon (1). Although Dexia is an entity that is currently in orderly resolution, it was subjected to the full exercise. However, the CA did not cast doubt on the restructuring plan approved by the European Commission in 2012. It should also be noted that a number of banks operating in Belgium, including BNP Paribas Fortis and ING Belgium, were subjected to the CA via their parent company.

(1) Banque Degroof did not take part in the CA as the institution was not designated as significant until after the ECB had published the list of institutions subject to the CA.

Asset quality review

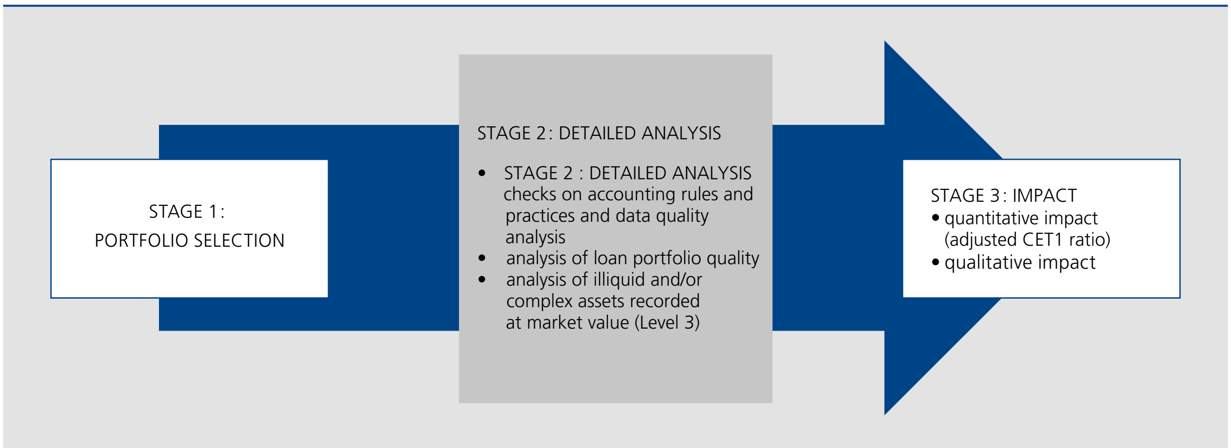
The AQR mainly centred on verifying the valuation of the assets in the institutions' accounts as at 31 December 2013. The aim was to assess to what extent the institutions were correctly applying the current accounting standards, and to check whether the asset valuations in the accounts were prudent. In order to ensure equivalent treatment between institutions, the ECB proposed a conservative, uniform interpretation of the rules for applying the International Financial Reporting Standards (IFRS). That implied the use of fairly strict parameters or specific limits and indicators, notably for the definition of non-performing loans.

The AQR was not confined to the detailed analysis of balance sheet exposures but also covered off-balance-sheet items. In addition, it covered both domestic and foreign exposures, whether they concerned governments, financial institutions, firms or individuals. The AQR comprised three main stages.

The first stage involved selecting the portfolios, which was necessary in view of the level of detail in the analysis. The aim was to include the riskiest portfolios and to cover at least 50 % of the credit-risk-weighted assets for each institution subject to the exercise. For the banks with the greatest exposure to illiquid securities, which were recorded in particular at fair value by using models (Level 3), some additional portfolios were also selected.

The second stage involved credit quality analyses and the valuation of the illiquid assets in a number of successive steps. First, the institutions' accounting rules and practices were thoroughly analysed with due regard for international standards and certain conservative parameters imposed by the methodology. That examination was accompanied by analysis of the banks' data quality. Next, a line-by-line analysis of the sample of selected portfolios was used to determine whether the level of individual provisions was sufficient in view of the revaluation of the collateral and the harmonised definition of non-performing loans, while the level of collective provisions was estimated on the basis of a model developed by the ECB. Finally, for banks which had significant exposures in their portfolios available for sale or held for trading, a detailed analysis was conducted on the recording at fair value of complex or less liquid assets (Level 3). This examination concerned both securities and derivatives recorded at fair value. Specific attention also focused on calculating the credit valuation adjustment (CVA), which corresponds to the adjustment of the derivatives' value to incorporate the change in the counterparty's credit quality. The CVA aims to take account of the counterparty's probability of

CHART 2 COMPONENTS OF THE ASSET QUALITY REVIEW



Source : ECB.

default, and hence the non-recovery of cash flows from derivatives.

In the final stage, the quantitative impact of the adjustments to provisions and to the valuation of complex assets led to a correction of the common equity Tier 1 (CET 1) ratio to be used as the basis for the stress test. The more qualitative shortcomings detected by the AQR also led to detailed and specific recommendations which the credit institutions must implement in the coming months.

Stress test

The second major component of the ECB's comprehensive assessment of the leading euro area banks comprised stress tests to determine the ability of credit institutions to withstand macroeconomic and financial shocks over a three-year period. For these tests, two main scenarios were considered. The first, known as the baseline scenario, was based on economic forecasts produced by the European Commission at the end of 2013 ; that already corresponds to a relatively difficult situation for the banks, in view of the predicted weak economic growth. The second, called the adverse scenario, simulates a severe deterioration in the economic situation. The volume of GDP declines slightly at first in 2014, but then very sharply in 2015 before stagnating in 2016 ; this leads to a steady rise in the unemployment rate amounting to 2 % over the period as a whole, both in Belgium and in the euro area. The increase in consumer prices initially slows and then ceases in 2016. The adverse scenario assumes a rise in both short-term and long-term interest rates, accompanied by widening spreads over the period of the exercise. The main difference in parameters between the Belgian economy and that of other countries concerns housing market prices, which decline by a cumulative total of 25 % over three years in Belgium, compared to 15 % in the euro area. Such extreme assumptions show that the stress tests must be seen as a prudential exercise, and are in no way a prediction of future events.

In order to determine whether the financial institutions subject to the CA need to adopt corrective measures, a minimum solvency ratio in terms of CET1 was fixed at 8 %, both for the asset quality review and for the stress test baseline scenario, and at 5.5 % for the adverse scenario ; this was 1 % higher than the minimum set by the Basel III rules, in order to take account of the systemic risk.

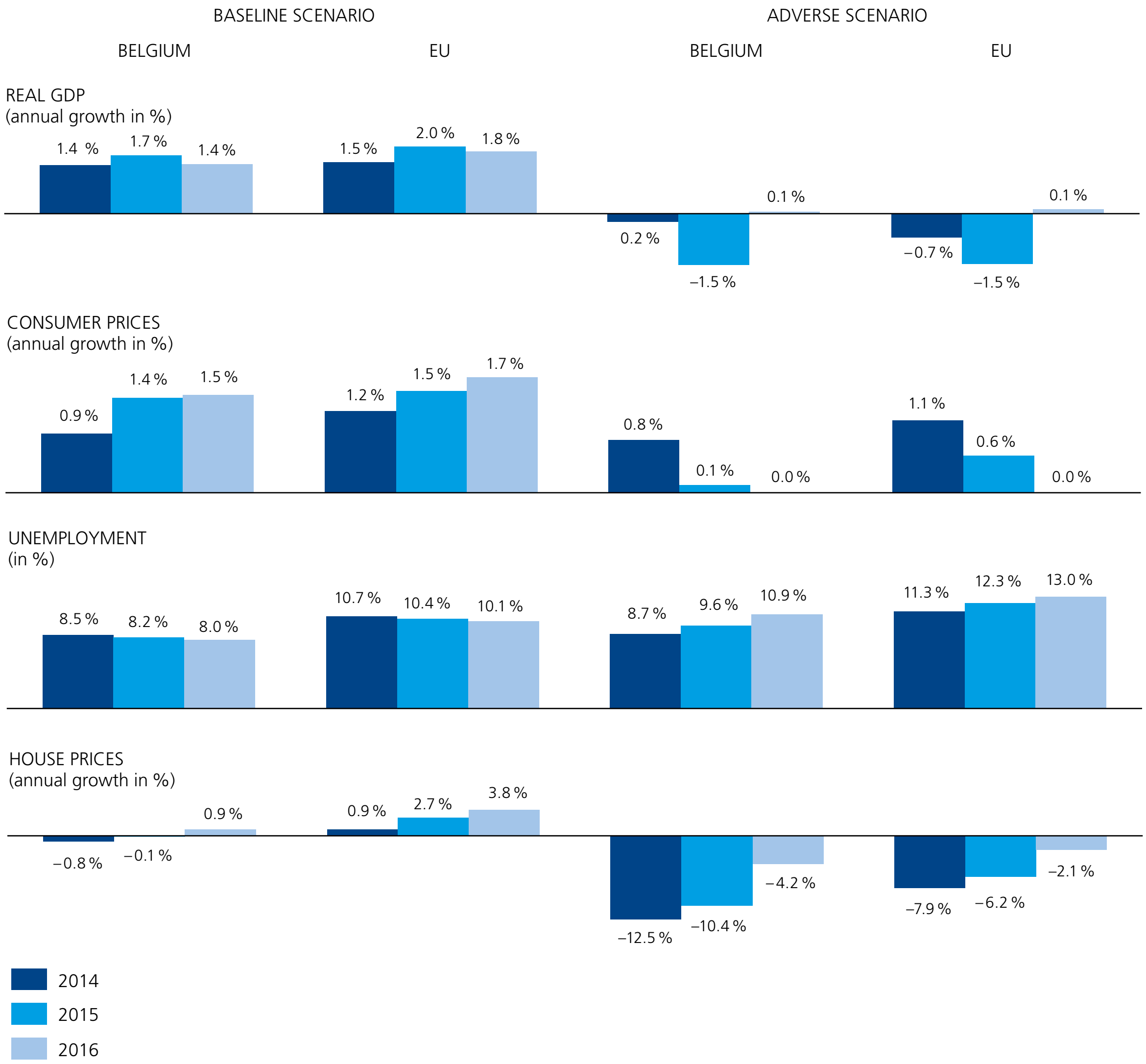
1.2.2 Results of the comprehensive assessment

Asset quality review

The detailed asset quality review covered 38 portfolios representing 51 % of the risk-weighted assets of Belgian credit institutions subjected to the exercise. In each portfolio, a representative sample of the riskiest credit files was examined, making a total of more than 4 200 credit files and almost 3 150 collateral items. In addition, 13 complex valuation models were analysed along with the valuation of 96 illiquid securities held at fair value and amounting to € 3.5 billion.

The asset quality review revealed that the Belgian banks' accounting practices were generally prudent and in line with the international accounting standards ; that was reflected in an adequate level of individual and collective provisions for the loan portfolios. The adjustments

CHART 3 COMPARISON OF THE MACROECONOMIC SCENARIOS FOR BELGIUM AND THE EU

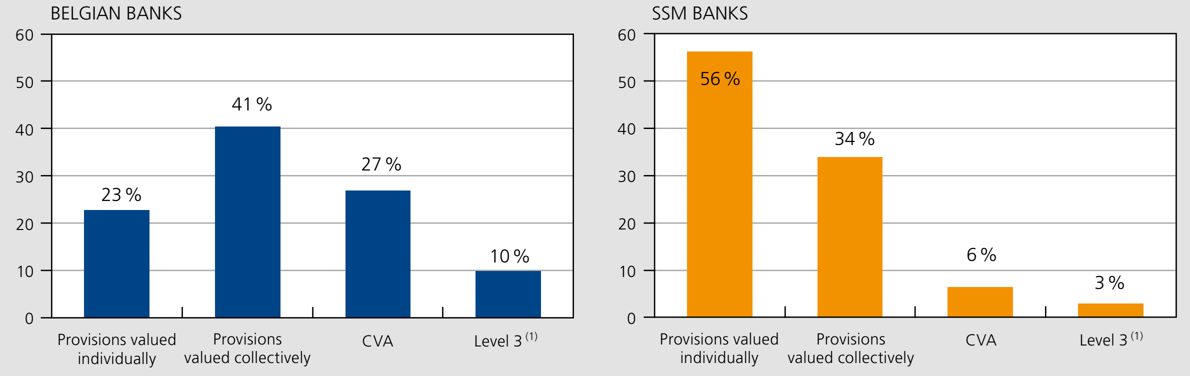


Source: ECB.

required by the AQR were therefore minor, averaging 0.5 % of the CET 1 ratio in Belgium. Those adjustments were due mainly to the conservative rules imposed for the exercise, and do not raise doubts about the annual accounts of credit institutions.

As for the quantitative impact, these results are broadly similar to those seen on average for the euro area, although there are fairly marked differences between individual countries. However, the components of the adjustments made do differ. For instance, the corrections for the CVA are proportionately larger in Belgium, whereas in the euro area the revision of credit provisions valued individually predominates. This relative under-estimate of the CVA of Belgian banks may be attributable in particular to the hedging modalities of the interest rate risk used by some of them, and to the relatively long maturity of their derivatives, due to their business model. The fact that, in comparison with the euro area, there was no marked adjustment to the provisions valued individually is most likely due to a more favourable economic environment than in some Member States, as well as to the conservative practices adopted by Belgian banks in that respect. The same applies to the provisions valued collectively, leaving aside the adjustments resulting from the foreign portfolios of certain Belgian banks.

CHART 4 CONTRIBUTION OF THE VARIOUS FACTORS TO THE QUANTITATIVE RESULTS OF THE AQR IN BELGIUM AND IN THE EURO AREA
(in %)



Sources: ECB, NBB.
(1) Recording of assets at fair value by means of models.

Apart from the quantitative adjustments, the AQR highlighted a number of shortcomings in data quality and in the methodologies used to value the assets and the real estate collateral. The Bank expects the Belgian institutions to make sure that, in the coming months, they deal with the points for attention that the AQR identified and which gave rise to the recommendations described in Box 1.

Box 1 – Qualitative recommendations resulting from the AQR

One of the aims of the AQR was to increase the transparency of credit institutions' balance sheets, more particularly by improving the quality of the information and data in order to enable risks to be detected at an early stage. Various weaknesses were apparent in the Belgian banking sector in general, leading to the following recommendations.

Quality of the data and the information

Since the data forming the basis of the credit quality assessment are not always reliable and complete, the quality of the information used to value the assets and assess the risks has to be improved. In addition, the banks must ensure that the data in their various information systems are consistent. Thus, institutions must respect the "Principles for effective risk aggregation data and risk reporting" [1] defined by the Basel Committee on Banking Supervision. Similarly, the parameters used to value derivatives and to calculate the collective provisions on the loan portfolio must be better documented and explained in order to ensure that these valuations and provisions are appropriate.

(1) Basel Committee on Banking Supervision, "Principles for effective risk data aggregation and risk reporting", January 2013.

Policy for the valuation of real estate collateral, both residential and commercial

The rules and practices concerning the periodic revaluation of collateral need to be applied more consistently and based on complete and reliable data. The criteria for determining whether independent valuers can be brought in and the standards that they must respect need to be defined more strictly.

Rules on classification of non-performing exposures and forbearance policy

These rules had to be revised and redefined by the end of 2014 on the basis of the EBA's recommendations concerning the classification of these exposures. The AQR revealed the need to reclassify some exposures in the non-performing category, and the inability of some institutions to identify systematically the exposures for which the banks have granted loan restructuring or concessions on account of the deterioration in the counterparty's quality (forbearance). In that context, the banks will have to establish a new process and ensure that their data systems are geared to detecting cases of forbearance at an early stage.

Governance of the procedures for periodic checks on market prices and validation of recording of assets at fair value

In view of the risk that market activities may entail, it is vital for banks to have appropriate governance for valuation in accordance with the principles defined by the Basel Committee. Thus, all institutions must conduct regular, independent checks on valuations at market prices and on models for the valuation of complex assets.

Stress tests

For the 130 European banks subjected to the exercise, the average CET 1 increased from 11.4 to 11.6 % in the baseline scenario, and fell from 11.4 to 8.4 % in the adverse scenario. The latter scenario detected an overall capital deficit of € 25 billion among 25 banks. That total, which must be viewed in the context of the capital increases amounting to € 57 billion effected by the participating banks in the first three quarters of 2014, was regarded as credible by the markets. They responded positively, thus endorsing the opinion of the ECB and the national supervisory authorities that such an exercise was justified prior to the launch of the SSM.

In Belgium, all credit institutions withstood the baseline scenario. With the exception of Dexia, which is in orderly resolution, the CET 1 ratio for the five other Belgian banks

TABLE 1 CHANGE IN THE CET 1 RATIO IN THE BASELINE SCENARIO AND THE ADVERSE SCENARIO
(in %)

	01-01-2014		31-12-2016	
	Before the AQR	After the AQR	Baseline scenario	Adverse scenario
SSM	11.8	11.4	11.6	8.4
Belgium	14.6	14.1	12.1	7.4
Belgium (excluding Dexia)	14.0	13.5	12.5	8.2

Source : NBB.
Note : The CET 1 ratios as at 01-01-2014 (before and after the AQR) are the figures as at 31-12-2013 adjusted to take account of the first phase of the introduction of the Basel III rules.

involved in the exercise would decline on average from 13.5 % in 2013 to 12.5 % at the end of 2016. That is well above the 8 % minimum set by the harmonised methodology, but indicates a less favourable picture than in the rest of the euro area. The cause must lie mainly in the repayment of state aid by one bank, whose capital position deteriorated accordingly [1]. Without that factor, the average CET 1 would have been stable at its 2013 level.

In the case of the five Belgian banks, in the adverse scenario, the extremely depressed macroeconomic climate would mean an average reduction of 4.3 % compared to the baseline scenario. However, the solvency position of the Belgian banks would still be well above the 5.5 % minimum at 8.2 % in 2016, and would be comparable to the average of 8.4 % for the euro area.

Two Belgian banks, namely AXA Bank Europe and Dexia, were particularly affected by the shocks in the adverse scenario, and their capital position dropped below the 5.5 % limit. However, from the end of December 2013, AXA Bank Europe continued to sell off assets relating to non-strategic activities in order to reduce its risk profile, and it increased its capital so that it now meets the ECB's requirements. In the case of Dexia, its specific characteristics were taken into account by considering the restructuring plan, the State guarantee and the sale of assets since the end of 2013. The conclusion was that the stress test did not cast doubt on the plan approved by the European Commission in 2012, and the group was not required to take any supplementary measures.

The comparisons between the overall results for Belgium and for the euro area need to be interpreted with caution because, on the one hand, the aggregate averages cover fairly diverse profiles, while the results for two large banks with a strong presence in Belgium, namely BNP Paribas Fortis and ING Belgium, are not included in the Belgian data since they are consolidated at their parent company level. Nonetheless, the stress tests highlighted certain characteristics of the Belgian banks.

Credit risks, traditionally the most sensitive to a deterioration in the economic climate, are mainly apparent for the foreign activities of Belgian banks which entail large positions on riskier market segments. However, the stress tests also simulated the outbreak of a property crisis in Belgium, similar to the crises facing certain European countries in recent years, and not at all comparable to past developments in Belgium. The Belgian banks demonstrated good resilience to this scenario component.

The legacy of past business also influenced the results, especially as one of the main assumptions implied leaving the banks' balance sheet unchanged at the end-2013 level, in order to prevent credit institutions from using expansion plans or the disposal of certain activities as a means of passing the test. While the exercise did allow the effect of restructuring plans approved by the EU to be taken into account, it disregarded other consolidation efforts taking place in 2014 and continuing in the coming years.

The rather low level of profitability also had an impact on the stress test results. In recent years, the Belgian banks have refocused on their traditional intermediation activities, where profitability is fairly modest. This mainly concerns lending to the Belgian economy and investment in government bonds, funded essentially by means of savings collected in Belgium, notably in the form of regulated savings deposits. The stress tests introduced very strict assumptions concerning future interest margins and the value of government bonds. In particular, it was assumed that the cost of financing would increase considerably owing to a general rise in interest rates, while the scope for passing on those increases in the interest rates on assets was severely restricted by the exercise parameters.

1.3 Bank resolution : towards a single resolution mechanism

The single resolution mechanism is the second pillar of the banking union. At European level, three pieces of legislation were adopted in 2014 defining the mechanism's contours. The first, Directive 2014/59/EU, known as the BRRD (Bank Recovery and Resolution Directive) [2], defines the general resolution framework. The second, Regulation 806/2014, known as the SRM Regulation [3], establishes the single resolution mechanism and the single resolution fund. The third, the intergovernmental agreement, deals with the transfer of contributions to the single resolution fund and the mutualisation of the national compartments within the single resolution fund.

The BRRD establishes the general framework for the recovery and resolution of bank crises and applies to all EU Member States. It lays down the preparation requirements, defines obligations concerning capital write-downs, introduces four resolution tools and the associated powers,

(1) Since it is regarded as core capital according to the Basel II rules, the state aid granted to KBC during the crisis fulfils the conditions for qualifying as CET 1 capital until 31 December 2017.

(2) Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No. 1093/2010 and (EU) No. 648/2012, of the European Parliament and of the Council.

(3) Regulation (EU) No. 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No. 1093/2010.

and deals with the financing of resolution via resolution fund contributions paid in by the banking sector in advance. It also requires the designation of a national resolution authority responsible for drawing up resolution plans and for using the resolution tools and powers.

The resolution procedure has to be seen as an alternative to bankruptcy. During the resolution process, the ailing banking institution or group is restructured or placed in orderly liquidation. This procedure has five objectives : (i) to ensure continuity of the credit institution's critical functions, (ii) to avoid the materialisation of risks to financial stability, (iii) to protect public funds, (iv) to safeguard protected deposits and protected investors, and (v) to protect customers' funds and assets.

The BRRD defines the conditions triggering resolution. Three conditions must be met simultaneously. First, the credit institution must be failing or likely to fail. Second, there must be no private or prudential alternative solution which could avert that failure within a reasonable timeframe. Third, the resolution process must be justified in the public interest.

If these three conditions are satisfied simultaneously, an institution enters a resolution procedure. Since the BRRD aims to limit the use of public funds, the resolution tools ensure that the shareholders are the first to absorb the losses, followed by the institution's creditors. Before resolution begins, the resolution authority is thus obliged to write down or convert the institution's capital instruments (common equity Tier 1, additional Tier 1 instruments, and tier 2 instruments). Next, it applies one of the four resolution tools, namely the option of selling a credit institution's assets or liabilities to a private partner, sheltering them in a bridge institution, transferring them to an asset management vehicle or arranging a bail-in.

The SRM Regulation establishes the SRM, composed of the Single Resolution Board (SRB), the EU Council of Ministers, the European Commission and the resolution authorities of the Member States participating in the SSM. The SRB is responsible for preparing and adopting the resolution plans and resolution schemes relating to institutions and groups that the ECB considers significant under the SSM or for which the ECB has decided to exercise its supervisory powers directly.

The SRB comprises a chair, a vice-chair, four other permanent members and a representative of each national resolution authority of Member States participating in the SSM. The European Commission and the ECB both have an observer on the SRB. The SRB meets in plenary or executive sessions. It generally meets in executive session to adopt a resolution plan or scheme for a particular group or institution, with the proviso that if, under a resolution scheme, use of the single resolution fund exceeds certain limits, the decisions are taken in plenary session. In executive sessions, only the permanent members of the SRB and the representatives of the national resolution authorities concerned are invited to join in the deliberations. Decisions should normally be based on a consensus. Failing that, they are passed by a simple majority of the permanent members of the SRB. The national resolution authorities have to ensure that SRB decisions are actually implemented.

The SRM Regulation also states that the SRM is based on a single resolution fund comprising contributions payable by each credit institution present in one of the participating Member States (see box 2 on the process of financing the single resolution fund and the principle of mutualisation of the national compartments). For the participating Member States, this single resolution fund replaces the national resolution funds established by the BRRD.

The Regulation provides an exhaustive definition of the single resolution fund's mission. The fund can guarantee the assets or liabilities of an institution subject to a resolution procedure, its subsidiaries, a bridge institution or an asset management vehicle. It can grant them loans or purchase some of its assets. The fund can also make contributions to a bridge institution or asset management vehicle. It can likewise pay compensation to shareholders or creditors if they have incurred greater losses than would have been the case under liquidation in accordance with a normal insolvency procedure. Finally, the fund can make a contribution to an institution under a resolution procedure in lieu of the write-down or conversion of the liabilities of certain creditors when the bail-in tool is applied and the decision is made to exclude certain creditors from the scope of the bail-in.

The BRRD was partially transposed into Belgian law by the Banking Law. That transposition is incomplete since the BRRD was still at the negotiation stage when the Banking Law was drawn up. It was therefore only possible to complete early transposition of the most stable elements of the Directive.

Thus, in accordance with the BRRD, the Banking Law stipulates that every Belgian credit institution must draw up recovery and resolution plans, though – in line with the principle of proportionality – there is provision for simplified obligations and the option of granting various waivers. If the plan does not meet certain criteria, and in particular if the resolution authority considers that resolution is not feasible, it has a range of powers intended to remove the impediments to resolution. It can only use those powers after offering the credit institution the option of itself proposing corrective measures and in so far as it considers that those measures do not do enough to make resolution feasible. For example, it can require the negotiation of service contracts, it can impose limits on the individual and aggregate amount of certain risk exposures, dispose of assets, or modify the institution's legal or operational structures.

In addition, the Banking Law introduces into Belgian law the requirements concerning the write-down and conversion of capital instruments and three of the four resolution tools. The last tool, the bail-in, was not included in the Law but the King may introduce a bail-in scheme by a Decree deliberated in the Council of Ministers. However, such a bail-in scheme cannot enter into effect before 1 January 2016.

The elements still to be incorporated in Belgian law in order to complete the transposition of the BRRD mainly concern (i) the problem of groups, particularly cross-border groups (e.g. intra-group financial support agreements, resolution colleges, joint decision-making processes, etc.), (ii) the bail-in tool, (iii) the financing of the resolution of banking crises (and in particular the role of the resolution fund and the deposit guarantee fund), and finally (iv) the question of investment firms.

The Banking Law imposes dual checks on the resolution measures adopted by the resolution authority. First, the Finance Minister has 48 hours in which to oppose any disposition decision if he considers that the decision has an impact on the budget or systemic implications. Also, the resolution authority has to submit an application to the Brussels commercial court to obtain confirmation that the decisions which it is taking conform to the law and that the amounts of compensation are fair.

To supplement these arrangements, the Organic Law[1] confers the role of national resolution authority on the Bank. In accordance with the BRRD and to ensure that the prudential tasks are kept separate from the resolution activities, the Organic Law establishes a new body within the Bank, namely the Resolution College, chaired by the Governor of the Bank. Apart from the Governor, the Resolution College comprises the Vice-Governor, the Directors responsible for the Department in charge of the prudential supervision of banks and stock-broking firms, the Department in charge of prudential policy and financial stability, and the department in charge of the resolution of credit institutions, the Chairman of the Financial Services and Markets Authority (FSMA), the Chairman of the Board of the Federal Public Service Finance, the official in charge of the resolution fund, four members appointed by the King by a Decree deliberated in the Council of Ministers, and a magistrate appointed by the King.

The organisation and functioning of the Resolution College and the services responsible for preparing its work, and the conditions under which the College exchanges information with third parties (including the Bank's other organs and services) and the measures to prevent any conflict of interests between the Resolution College and the Bank's other organs and services have yet to be determined or defined by Royal Decree deliberated in the Council of Ministers.

(1) Law of 22 February 1998 establishing the Organic Statute of the National Bank of Belgium.

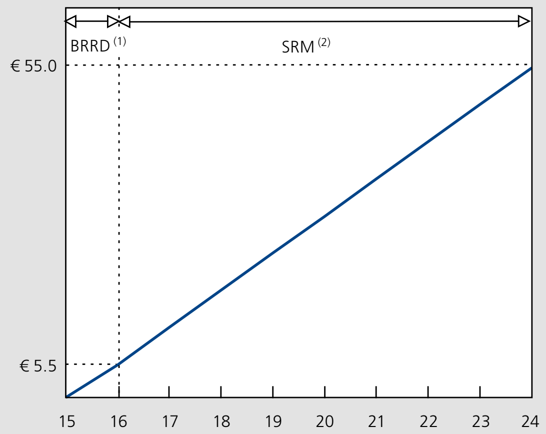
Box 2 – Financing of the single resolution fund

The BRRD stipulates that, from 2015, each EU Member State shall establish a national resolution fund financed by the banks and investment firms. Those institutions shall contribute to the fund of the Member State in which they are established. After ten years, the fund's resources will amount to 1 % of the covered deposits of the institutions authorised in the Member State concerned.

For euro area countries and the other Member States participating in the banking union, the single resolution fund will replace the national resolution funds from 2016. The contributions levied at national level in 2015 will then be paid into the single resolution fund. This fund will be established gradually from 1 January 2016 over an eight-year period, and will be financed by credit institutions and by investment firms belonging to a group subject to the consolidated supervision of the ECB. At the end of that period, the fund's resources will amount to 1 % of the guaranteed deposits of all authorised credit institutions in the banking union. According to the 2011 data on deposits, the target will be € 55 billion, taking account of the contributions to be collected in 2015 under the BRRD.

AVAILABLE RESOURCES IN THE SINGLE RESOLUTION FUND

(in € billion)



Source: NBB

(1) Bank Recovery and Resolution Directive.

(2) Single resolution mechanism.

An intergovernmental agreement concluded between all EU Member States except the United Kingdom and Sweden[1] provides that, in a transitional phase, the fund will consist of national compartments. The contributions from Belgian institutions will be paid into the Belgian compartment. If the single resolution fund has to contribute to the financing of an institution's resolution, the amounts will be taken first from the national compartments. The proportion to be taken first from the national compartment concerned is limited to a percentage of the total resources in that compartment. That percentage will gradually decline from 100 % in 2016 to 6.66 % in 2023. The proportion to be taken from all compartments if the national compartment is insufficient will increase gradually from 40 % in 2016 to 100 % in 2023. This means that use of the fund resources will be "mutualised". If these two steps are still insufficient, the residual amounts can be taken from the national compartments. At the end of the eight-year transitional period, the national compartments will disappear and it will no longer be necessary to follow this complex sequence.

Calculation of the contributions

The size of each institution's annual contribution depends on the size of the bank and its risk profile. The BRRD amounts are defined by a delegated act of the Commission, and the SRM amounts are defined by an implementing act of the Council.

For each bank in a participating Member State, the levy basis is determined by deducting the deposits covered by the deposit guarantee system from the total liabilities excluding own funds. This levy basis is then multiplied

(1) The intergovernmental agreement does not apply to all 26 co-signatories. It only applies to euro area countries and, in the future, to non-euro area countries which join the SSM and the SRM.

by a risk weighting, which is based on four risk categories, including the financing structure and the institution's importance for financial stability. Since this levy basis is calculated for all banks, each bank's share in the total is known. The individual contributions of each bank can then be calculated as the bank's share in the target national amount specified by the BRRD for 2015. Since an abrupt switch from a national target figure in 2015 to a European target figure in the following year would lead to large divergences in contribution obligations between some Member States, the transition is being staggered. The proportion of the contributions payable by each bank according to the BRRD formula declines from 60 % in 2016 to 0 % in 2023. The SRM-formula proportion increases in inverse proportion to the reduction in the BRRD-formula proportion.

On the basis of the principle of proportionality, there are exceptions to this calculation method, particularly for small banks with a non risk-weighted levy basis of less than € 300 million and total assets of less than € 1 billion. These small banks will pay a flat-rate contribution of between € 1 000 and € 50 000, depending on the size of their levy basis. Similarly, other institutions with specific characteristics will qualify for waivers in the calculation of their contributions. Thus, the amounts which can be levied on market infrastructures approved with a credit institution licence are calculated solely on the basis of the liabilities derived from their banking activities.

1.4 Continued implementation of Basel III and the Banking Law

1.4.1 Developments concerning liquidity and capital

Liquidity

The CRR provides for the introduction, in October 2015, of a harmonised liquidity standard for all European credit institutions, namely the Basel III liquidity coverage ratio (LCR). The LCR will be phased in (60 % in 2015, rising by 10 % in 2016 and in 2017, and reaching 100 % from 2018), both at the level of the individual legal entity and at the highest consolidation level in Europe. The details of the final European LCR were determined in October 2014 by a delegated act of the European Commission [1].

Consequently, liquidity regulations and reporting in Belgium have to be adapted to the new European framework. The Bank decided in principle to use the scope that the CRR offers Member States during the transitional phase in regard to the supervision of liquidity and not to apply the said phased introduction. With effect from October 2015, the Belgian liquidity ratios will therefore be replaced by a 100 % LCR for all credit institutions.

In October 2014, the Basel Committee on Banking Supervision published a revised version of the second liquidity ratio specified by the Basel rules, namely the net stable funding ratio (NSFR), and a proposal for requirements concerning the transparency of that ratio. This structural liquidity ratio obliges the banks to finance illiquid assets by stable funding sources such as equity capital, deposits made by households and SMEs, and long-term liabilities. The NSFR therefore complements the LCR which requires the banks to hold liquidity reserves sufficient to cope with a short-term liquidity crisis. The recalibrating of the NSFR includes a revision of the treatment of transactions in derivatives and short-term loans to entities in the financial sector. The NSFR is to be introduced in Europe from 2018. During the year under review, the EBA embarked on an impact analysis of the implementation of the NSFR for European credit institutions, which will form the basis for the European Commission to initiate legislation in order to introduce the NSFR in Europe.

In addition, CRD IV stipulates that risk-based supervision – namely pillar 2 of the prudential supervision – must also consider an institution's liquidity position and its liquidity management, and that additional specific requirements concerning liquidity may be imposed on the basis of that analysis. This means that a similar decision on liquidity was introduced in 2014 alongside the pillar 2 decision on capital. That liquidity decision must be taken at least once a year, and may concern both quantitative and qualitative supervisory measures. In this context, a key point is that the decision in principle to introduce the LCR at 100 % from October 2015 already implies significant additional quantitative pillar 1 requirements for all the Belgian credit institutions concerned.

(1) Delegated Regulation of 10 October 2014 supplementing Regulation No. 575/2013 on the liquidity coverage requirement for credit institutions.

Under the SSM, it was agreed that, from 2014, the pillar 2 decision would be taken immediately by the SSM for institutions considered significant which are subject to its direct supervision. However, it was still up to the national supervisory authorities to conduct the necessary analyses for those institutions and to formulate proposals for supervisory measures based on a national methodology. In the case of institutions considered less significant, the Bank was responsible for both the assessment and the decision. In the year under review, the Bank therefore devised a pillar 2 methodology for liquidity risk based on the EBA's harmonised guidelines on the subject, proposing a level of liquidity that takes account of both quantitative and qualitative aspects.

Capital

The CRD IV and the CRR came into force on 1 January 2014. The EU Regulation offers a number of options enabling the national competent authorities to impose their own rules, notably on the application of certain transitional measures. The Bank's regulation dated 4 March 2014 [1] therefore supplements the new European regulatory framework and specifies the implementation in Belgium of the various options and transitional measures under the CRR. That regulation was approved by the Royal Decree of 10 April 2014 [2].

In regard to the existing CRD III options [3], the NBB regulation of 4 March 2014 adopted most of the options selected in the capital regulation of 15 November 2011 [4], in order to maintain regulatory continuity. However, one option in that regulation was amended, namely the provision for exemption from the internal ratings-based approach (IRB) for the exposures of central governments and central banks of Member States if those exposures are eligible for a 0 % weighting under the standard approach.

The regulation of 4 March 2014 stipulates that institutions qualifying for exemption for those exposures up to 31 December 2013 must apply the IRB approach to them from 1 January 2014. However, that measure is being phased in between 2014 and 2018, so that the institutions only have to apply 20 % of the capital requirements in 2014, 40 % in 2015, 60 % in 2016 and 80 % in 2017. It is only in 2018 that the institutions must apply 100 % of the capital requirement to those exposures according to the IRB approach.

The new options introduced in the CRR also permit holdings in financial sector entities to be exempted in some cases from deduction from the capital. In the case of holdings in insurance companies, the Bank follows the "Danish compromise" method of the CRD/CRR in order to harmonise the treatment of those holdings with that in most Member States. If certain conditions are met, notably if the solvency test for conglomerates is applied, that treatment allows those holdings to be weighted rather than deducted from the capital. The NBB regulation also specifies that, in regard to supervision on an individual and sub-consolidated basis, capital instruments issued by entities in the financial sector must be deducted from the capital in certain cases, notably if those holdings are not included in the scope of the consolidated supervision of the institution.

In regard to the new national options providing for transitional measures to enable the new, more stringent prudential standards to be phased in, the regulation only incorporated a few of the options in order to ensure that these new standards are implemented in full as soon as possible. For instance, goodwill and negative results for the current year must be deducted immediately from the capital.

The regulation nevertheless provides for transitional measures for the deduction from the capital of minority interests and instruments that no longer meet the conditions laid down by the CRR for qualifying capital. There are also transitional measures for the recognition as capital of deferred tax liabilities based on future profits and not resulting from time differences, and for inclusion in the capital of unrealised gains and losses on fixed-income securities and loans recorded at fair value on the balance sheet, with the exception of available-for-sale (AFS) reserves in the sovereign debt portfolio. For these measures, the regulation makes use of all the flexibility that the CRR permits to determine transitional percentages, and therefore does not provide for early implementation of these requirements.

In regard to the AFS reserve in the sovereign debt portfolio, the NBB regulation stipulates that this revaluation reserve will not be included in the capital unless the unrealised losses exceed 5 % of the book value of that portfolio.

Finally, pending harmonisation of the leverage ratios in 2018, the regulation stipulates that the National Bank is to maintain the requirements concerning the general solvency ratio specified in the regulation of 15 November 2011.

(1) Regulation of 4 March 2014 of the National Bank of Belgium on the implementation of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013.
(2) Royal Decree approving the regulation of 4 March 2014 of the National Bank of Belgium on the implementation of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013.
(3) Directive 2006/48/EC of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (recast).
(4) Regulation of 15 November 2011 of the National Bank of Belgium on the capital of credit institutions and investment firms.

In the same connection, during the year under review, the Basel Committee on Banking Supervision continued the solvency requirement reform programme launched as a result of the financial crisis. To that end, in January the Basel Committee finalised the definition of the new leverage ratio. That ratio determines the minimum amount of capital in relation to the total volume of assets, in order to ensure that a rapid expansion in lending to counterparties with a low risk weighting does not lead to an excessive rise in the overall debt ratio or in the leverage effect. The European Commission adopted this final Basel Committee definition in a delegated act so that this version of the leverage ratio is being introduced as an observation ratio and must be published by institutions from 2015. At a later stage, the European Commission may also initiate legislation to make this ratio binding for European credit institutions and investment firms. The Basel Committee text provides for a compulsory leverage ratio from 2018.

In addition, during the year under review, as part of its programme of reforms, the Basel Committee published norms concerning risk concentration, a new simplified and uniform standard approach to counterparty risk in derivatives and guaranteed financing transactions, and a new calculation of stricter solvency requirements concerning securitisation. The risk concentration rules limit the exposure of banks to individual counterparties or groups of linked counterparties. These rules are comparable to the European rules on the subject, which have already been applicable to European institutions for some time.

Other Basel Committee priorities on these subjects concerned ensuring consistency and comparability in the implementation of the solvency and liquidity requirements in order to enhance public confidence in the capital and liquidity ratios and to avoid distortions of competition between institutions. In that regard, the Basel Committee continued to work on the implementation of a vast programme of measures during the year under review.

The Regulatory Consistency Assessment Programme set up in this context by the Basel Committee includes provision for monitoring the implementation of the standards, notably with the aid of a comprehensive assessment by the Committee of the introduction of the Basel standards by the various supervisory authorities. The European legislation on the capital requirements for credit institutions resulting from the CRD IV and the CRR was analysed during the year under review. The findings revealed a number of areas in which the European legislation deviates from international standards.

In addition, like the EBA, the Basel Committee conducted other impact assessments to identify differences between the capital requirements calculated by the institutions unconnected with differences in the underlying risks. These impact assessments point to a considerable variation in the solvency requirements, notably in banks using internal models to calculate their capital requirements for credit risks, market risks and operational risks. During the course of 2014, the Basel Committee examined the feasibility of establishing measures to limit variations not attributable to differences in the underlying risks. First, the Committee aims to improve and enhance the risk sensitivity of the non-model-based standard approach used to calculate the capital requirements for credit risks, market risks and operational risks, in order to introduce a minimum percentage for these capital requirements as a minimum standard for the capital requirements calculated by internal models. Second, the Committee is undertaking a fundamental revision of the modelling practices used by banks, and has formulated proposals to clarify and simplify the use of internal models for the calculation of capital requirements.

Adaptation of the SREP capital assessment to the CRR framework

In accordance with the CRD IV, the Bank constantly assesses the risks to which credit institutions are exposed, and in so doing determines whether the strategies, processes and mechanisms used by those institutions are appropriate and whether their capital and liquidity are adequate.

In that connection, the Bank imposes a minimum capital ratio each year on the credit institutions under its supervision on the basis of a methodology that takes account of both the internal assessment of capital needs determined by the institution (ICAAP) and the results of the stress tests and the SREP conducted by the Bank. During the period under review, the Bank revised its methodology to take account both of the changes made by the CRR, notably in regard to the definition of the capital and of the weighted volume of risks, and of the results of the comprehensive assessment (see section 1.2 of this chapter).

As the ECB has been responsible for the prudential supervision of the Belgian banking groups since 4 November 2014, it was agreed that decisions on the minimum capital ratio would be formally taken by the ECB on the basis of a proposal from the Bank and the methodologies that it uses for the banks concerned.

On the subject of capital quality, the Bank has reinforced its policy of only taking account of capital instruments capable of covering the losses in a "going concern" situation as the main basis for assessing the adequacy of an institution's solvency, since that assessment indicates the degree to which the institution can continue in business. Up to the end of 2013, the Bank set an institution's minimum solvency ratio by reference to the Tier 1 equity capital. However, the CRR made fundamental changes to the definition of Tier 1 capital by distinguishing between core elements of common equity Tier 1 (CET 1) – consisting mainly of capital and reserves – and hybrid Tier 1 instruments which only bear losses in the second rank or if the bank's solvency ratio has already been seriously affected by losses. Taking account of this change in the regulatory definition of the capital, the Bank decided to set the minimum solvency ratio by reference to the amount of CET 1, until such time as the ECB defines its own policy on the subject.

As for quantification of the institution's risk exposure, the Bank noted that the CRR had already raised the volume of the minimum capital requirement by taking better account of the counterparty risk, and that some of the assumptions behind the determination of needs additional to the minimum requirements ought to be revised, particularly in view of the assumptions applied in the stress tests conducted by the EBA and the ECB in 2014. It thus revised the methodologies used for its SREP, notably by adapting the assumptions concerning changes in interest rates used to assess the level of the interest rate risk on the banking book.

The Bank also took account of the results of the comprehensive assessment for the purpose of determining the minimum solvency ratio applicable in 2014 and 2015. It adjusted the CA findings where necessary to take account of risks not fully covered by that exercise, notably the risks relating to disputes or the business model of the institution concerned if they were considered sufficiently significant. By means of this approach, the Bank aimed to make sure that the banks subject to the CA were assigned a minimum solvency requirement which, taking account of the results of the asset quality review and the stress tests, enables them to respect at all times the minimum levels of 8 % of the CET 1 capital in the baseline scenario and 5.5 % of the CET 1 capital in the adverse scenario.

1.4.2 Structural reforms

Regulation of proprietary trading activities

The Banking Law and the Bank's regulation of 1 April 2014 [1] form the framework for the structural reforms of the rules on the trading activities of financial institutions. These two tests adopt two lines of defence based on the recommendations of the Liikanen Report, namely the 2012 report by a European Commission high-level group of experts chaired by Erkki Liikanen [2], and on some elements of the Volcker Rule applicable in the United States.

First, some trading activities are totally prohibited. Other specific trading activities are permitted, but are subject to both quantitative and qualitative conformity requirements. In addition, a capital surcharge is imposed on financial institutions as a disincentive if the permitted trading activities exceed one of the quantitative limits set by the regulation. That capital surcharge was converted to a pillar 2 measure (see chapter 4 of this part).

The ban on proprietary trading activities concerns positions in financial instruments intended to make short-term profits from market price fluctuations. Similarly, high-risk trading activities which may lead to substantial losses, such as correlation trading and exposures linked to certain securitisation tranches, are covered by this ban. Also prohibited are transactions lacking adequate collateral, effected for own account with certain undertakings for collective investment which present exposures on other institutions with leverage in excess of a particular threshold, and proprietary trading by financial institutions directly involving leverage vehicles (hedge funds), without adequate collateral.

This ban is dictated by the principle that a financial institution cannot use deposits which it holds, and which are covered by a guarantee fund, for speculative purposes that make little contribution to the real economy. The role of such speculative activities in the recent financial crisis is one of the reasons for this measure.

Five categories of trading activities are permitted. The first two types of permissible trading activity concern providing customers with investment services and ancillary services, including the associated hedging, and the maintenance of a liquid market on the basis of a contractual obligation, by continuously quoting bid and offer prices for a particular type of security or financial instrument. Trading activities that constitute the effective economic hedging of the various risks inherent in a financial institution's own balance sheet, or those relating to sound liquidity management

(1) Regulation of 1 April 2014 of the National Bank of Belgium on proprietary trading.
(2) Report of the European Commission High-Level Group on structural reform of the EU banking sector, 2012.

or resulting from strategic decisions connected with the management of a permanent, liquid investment portfolio held by the institution concerned are also excluded from the ban so long as all these trading activities meet clearly defined criteria and standards.

The institutions have to submit a qualitative conformity report to the supervisory authority each year, showing that the framework established for the permitted trading activities meets the various requirements, notably in regard to internal control, good governance, organisation of the trading room, independent risk management, remuneration policy and exposure limits. Each individual trading unit must also have a clearly specified mandate defining the strategy and the range of permitted financial products, the authorised risk limits and the hedging strategies.

In addition, a detailed quantitative report on the permitted trading activities must be submitted quarterly for each trading unit and must enable the supervisory authority to check whether the requirements concerning quantitative limits or thresholds are being respected. That report includes an analysis of the daily results, the risks incurred by each trading unit, and the degree to which hedging transactions have effectively reduced the risks for specific risk factors.

If it should emerge that certain permitted trading activities do not fulfil these quantitative and qualitative conditions or exceed a particular risk-sensitive limit, and if the capital requirements for the trading activities concerned exceed 1 % of the regulatory capital, the institution will be requested to cut back these activities within thirty days or, if appropriate, to transfer them to a separate legal trading entity.

Developments at European level

In January 2014, the European Commission published a proposal for a Regulation on structural banking reforms [1]. That draft Regulation aims to reduce the risk of systemic banks and to harmonise the structural reform measures between the various Member States. Some Member States have already proposed a set of structural reforms. The proposal for a Regulation is currently under negotiation by the Member States in the Council, in which the Bank is taking part at technical level. For the moment, it is uncertain when the Regulation will be finalised.

Although it is too early to say what changes are likely to be made to the draft European Regulation, it should be noted that this text differs from the Belgian structural reform measures in a number of areas, which are described in the table. First, the European Regulation only applies to certain large banks, whereas the Belgian structural reforms concern all deposit banks eligible for the deposit guarantee scheme.

Next, the draft EU Regulation, like the Liikanen report, provides for some of the banks' trading activities to be transferred to separate trading entities within the group if specific indicator thresholds are exceeded and if the authorities establish that the bank's trading activities are a threat to financial stability. The specific activities that have to be separated and the full list of indicators to be used to trigger a prudential review and a possible separation decision have yet to be specified in secondary legislation. The Belgian legislation only prescribes the separation of own account trading activities or trading activities equivalent to own-account trading. At the same time, the Belgian legislation applies a capital surcharge to trading activities in excess of a given volume or certain risk limits.

Third, the draft EU Regulation prohibits banks and banking groups from engaging in proprietary trading. The proposal in fact uses a particularly narrow definition of proprietary trading that covers only the trading entities or staff specifically dedicated to own-account trading. This narrow definition of proprietary trading will only prohibit "open" own-account trading. It will have no impact on trading activities that a bank "conceals" among other types of trading activities, such as market-making or hedging transactions. However, most banks have terminated their open proprietary trading activities since the outbreak of the crisis.

Unlike the EU Regulation, and as explained above, the Belgian legislation also aims to detect proprietary trading activities conducted by banks under cover of another activity. That requires a broader definition of proprietary trading than the one used in the European Regulation, and entails establishing an appropriate reporting and monitoring framework for trading activities.

Another difference between the draft EU Regulation and the Belgian structural reform measures is that the former excludes trading in EU public debt from the definition of proprietary trading and from the calculation of the value of the indicators linked to the separation decision. The Belgian legislation does not allow any such exclusion, considering that proprietary trading in EU public debt may still entail substantial risks.

(1) Regulation on structural measures improving the resilience of EU credit institutions, 2014/0020, 29 January 2014.

TABLE 2 COMPARISON OF BELGIAN AND EUROPEAN STRUCTURAL REFORMS

	Europe (proposal for a Regulation)	Belgium
Scope	Banks considered of global systemic importance and banks reaching the following thresholds in three consecutive years: (1) total assets > € 30 billion and (2) assets and liabilities held for trading purposes > € 70 billion or > 10 % of the bank's total assets.	All banks accepting deposits eligible for the deposit guarantee.
	EU banks, their EU parent companies, their subsidiaries and branches including those in third countries, and EU branches and subsidiaries of banks established in third countries.	Belgian financial institutions (i.e. not branches of foreign institutions).
Trading activities	Broad definition, excluding purchase and sale of EU government bonds.	Narrower definition. Trade in EU government bonds is not excluded.
Proprietary trading	Prohibited, but very narrow definition since only the activities of desks, entities or operators dedicated to proprietary trading are prohibited.	Broader definition and in particular a "negative definition" stipulating that activities not falling within five authorised trading categories are treated as equivalent to proprietary trading.
	Banks must not invest in or hold shares in hedge funds, or hold certain alternative investment funds, nor may they invest in derivatives linked to that type of fund.	Banks must not invest in or hold shares in hedge funds, or hold certain alternative investment funds, nor may they invest in derivatives linked to that type of fund. Ban on all activities prohibited by the EU Regulation. Ban on certain risky activities.
	Trading in EU government bonds is exempt from the ban.	Proprietary trading in EU government bonds is not permitted.
Separation of trading activities	If certain thresholds are exceeded, the bank has to separate all the trading activities except trading in EU government bonds, unless it can demonstrate to the supervisory authority that those activities do not threaten financial stability.	Banks must separate all trading activities which do not clearly fall within the permitted trading categories.
	Certain derivatives used for hedging are excluded from the definition of trading activities and the bank may therefore retain them.	Banks have to separate trading activities which do not fulfil all the quantitative and qualitative limits for permitted categories of activities for which the capital requirements exceed 1 % of the capital.
	The supervisory authority must demand separation if certain criteria exceed a set of thresholds to be defined by the EBA.	A capital surcharge is applied to all permitted trading activities in excess of a specified volume or risk limit.

Source: NBB.

1.4.3 Governance: classification as a significant institution and Bank policy on restrictions on cumulating directorships

One of the key principles of the Banking Law lies in the concept of a "significant credit institution". In accordance with Article 3, 30°, of that Law, the concept covers both systemically relevant credit institutions and credit institutions which have a balance sheet total of over € 3 billion and which the supervisory authority does not consider to be non-significant on account of (i) their size, (ii) their internal organisation, and (iii) the nature, scale, complexity and cross-border character of their business. That definition is based on a presumption of significance that can be refuted. That presumption was included in the Banking Law to take account of the current diversity in the Belgian banking landscape. It should be noted that, in the Banking Law, the concept of "significance" differs in scope from the classification as a "significant/less significant" institution under the SSM.

Classification as a "significant" institution is particularly relevant for a range of legal provisions concerning the good governance of credit institutions, especially those relating to the formation of specialist committees within the board of directors (Article 33, § 1 of the Banking Law), the function of Chief Risk Officer (Article 37, § 3, first indent, second sentence of the Banking Law) and the quantitative restrictions on cumulating directorships (Article 62, § 5, second sentence, and Article 62, § 6, second sentence of the Banking Law). The Bank wrote to significant institutions urging them to take the necessary measures in good time with a view to the entry into force of the rules on committees at the end of 2014.

Following the entry into force on 1 July 2014 of new restrictions on cumulating directorships, as provided for in Article 62 of the Banking Law, the Bank conducted an initial classification exercise.

For each credit institution concerned, it reviewed the said criteria specified by the new Law. These legal criteria were refined by definition of a range of circumstances making it less likely that the presumption of significance would be refuted :

– the presence of substantial foreign activities : branches, subsidiaries or other foreign connections ;
– the coexistence of multiple business lines ;
– the coexistence of widely varying customer profiles or product groups ;
– heavy use of funding sources other than retail deposits ;
– existence of a complex risk profile and/or excessive risk appetite ;
– lack of sufficiently integrated group risk management ;
– finding of points for attention in regard to shareholdership stability ;
– membership of a group in which another institution was classed as significant.

Following analysis, the Bank decided to consider that a number of institutions did not qualify as institutions of significant relevance. Of course, that classification can be reviewed as time goes by, or if the institutions change their risk profile.

During the month of June 2014, the Bank informed the banking sector of the outcome of the classification exercise. At the same time, as the prudential supervision authority, it gave the significant credit institutions more detailed information on how it would interpret, in its supervisory practice, the new legal rules on cumulating directorships referred to in Article 62 of the Banking Law. Those institutions were also requested : (i) to check whether the legal rules on cumulating directorships were being respected for all members of their statutory management body, and (ii) to supply the Bank with a phased plan detailing how their institution intended to respect the legal rules on cumulation with effect from the next general meeting of shareholders. The institutions concerned were to submit that information by no later than 31 July 2014.

In its letter, the Bank first defined the scope of the new quantitative restrictions. This concerns more particularly the external mandates exercised in commercial companies by all directors of credit institutions and executive directors of holding companies. Directorships exercised in estate planning companies are excluded from the scope if those companies confine themselves to the routine management of family assets.

The Bank also stressed that the ceilings set by the Banking Law (a single directorship plus two non-executive directorships, or four non-executive directorships) are not an entitlement. On the basis of the criterion concerning the time commitment, the Bank may at any time require a reduction in the number of directorships exercised. In regard to management companies, the Bank will take account of all directorships whereby an individual acts as the permanent representative of a management company. Conversely, the position held within the management company itself need not count, provided the sole purpose of the management company is to exercise other directorships ; the intention here is to avoid any double counting of directorships.

The Bank also clarified the counting of various directorships exercised within the same group. In accordance with Article 62, § 9, first paragraph, of the Banking Law, directorships exercised in firms belonging to the group of which the credit institution is a member, or to a group in which a firm maintains close links with the credit institution or its parent company, must be regarded as a single mandate (group counting). External directorships exercised in groups totally separate from the credit institution are disregarded for the purpose of group counting under the current legislation, which means that each mandate has to be taken into account separately.

1.4.4 Prudential requirements for cooperative societies

During the year under review, the Bank attended to the prudential measures needed to take account of the specific characteristics of the capital of credit institutions in the form of cooperative societies. The Bank also examined the provisions necessary to ensure the soundness of a cooperative entity holding shares in a credit institution, while taking care to prevent inappropriate use of such a shareholding structure .

Credit institutions established in the form of a cooperative society

The capital of a cooperative society is variable: members of the cooperative can ask the society to redeem the shares that they hold at the issue price. This characteristic is at odds with the fundamental principle of capital permanence defined by the CRR. Capital instruments recognised as CET 1 can in fact only be redeemed in the event of liquidation of the credit institution or if they are replaced with capital instruments of equivalent quality. The CRR, supplemented on this point by the EC Delegated Regulation No. 241/2014 of 7 January 2014, lays down specific provisions to take account of this peculiarity of cooperative capital and to allow it to be recognised as CET 1.

These provisions are intended to give credit institutions in the form of cooperatives the right to refuse to redeem their members' shares or to limit their redemption for an indefinite period, taking account of the prudential situation and in particular the institution's general position as regards finance, liquidity and solvency, and the amount of the capital in regard to all the requirements applicable (1). This restriction option has to be assessed by the supervisory authority.

From a prudential perspective, however, a credit institution that has to block the redemption of members' shares incurs a reputational risk which may materialise, for instance, at the level of its deposits: since the members are usually also depositors, blocking or limiting the redemption of members' shares is also likely to lead to a withdrawal of deposits.

In this context, provision was made for various measures so that a credit institution in the form of a cooperative would have a financial buffer enabling it to meet requests for the redemption of members' shares and pay a dividend, and would also be able to withstand crisis situations, taking account of possible withdrawals by depositors (2):

– Formation and maintenance of a prudential reserve equal to 30 % of the paid-up capital, funded by allocating part of the profits.
– The articles of association of the credit institution provide for the blocking of redemption of members' shares if redemption requests exceed 10 % of the paid-up cooperative capital over a 12-month period.
– Reinforcement of the future LCR, by reclassification of deposits belonging to cooperative members in the category of less stable retail deposits and by specifying a higher outflow rate for those deposits (3).

New credit institutions established in cooperative society form

Special attention focuses on the situation of a new credit institution established as a cooperative society, because new credit institutions must have sufficient resources from the start to cover the operating losses inherent in the initial years and the increased risks associated with the development of the business. As is the case for any new credit institution, this situation is handled by means of a specific capital requirement calculated on the basis of the total amount of the risk exposure of the institution concerned. In addition to the measures governing the launch of the activities of any new credit institution, whatever its legal form, the articles of association of a new credit institution established in the form of a cooperative society must – unless the institution is supported by an institutional investor – specify a category of members' shares which are subject to a minimum non-redemption period equivalent to the estimated period of the business launch. That requirement is intended to ensure that the new credit institution keeps holding an adequate part of its initial capital at all times during the start-up period.

At the end of the start-up period, in principle marked by the generation of profits, a prudential reserve must be formed in the same way as for any credit institution established in the form of a cooperative society (see above). In the case of a new credit institution, the blocking measures in the event of a crisis will not concern members' shares subject to a minimum non-redemption period until that non-redemption period ends.

Cooperative entity holding shares in a credit institution

The measures concern the situation of a cooperative society that owns shares in a credit institution established in a different form, where the holding of those shares is the cooperative's sole or principal activity.

The first point to note is that the recognition of the capital financed by the cooperative entity as CET 1 in the

(1) These rules go very much farther than Article 55 of the Banking Law of 25 April 2014, which specifies that no capital can be repaid, including in the form of the redemption of members' shares, if that causes the institution to fail to respect the capital requirements applicable.
(2) These various measures were based on Articles 150, 151 and 154 of the Banking Law and Article 11 of Commission Regulation No. 241/2014 of 7 January 2014 supplementing the CRR. Note that the specific capital requirement (pillar 2) to take account of the characteristics of cooperative capital is calculated on the basis of the paid-up amount of that capital (and not the total amount of the institution's risk exposure, which is not relevant in this case) and that it cannot be covered by issuing new members' shares (since the risk referred to here is specifically linked to the characteristics of cooperative capital).
(3) The liquid asset categories are defined by Commission Regulation No. 2015/61 of 10 October 2014 supplementing the CRR concerning the introduction of the LCR.

credit institution concerned is subject to appraisal of the independence of the shareholding cooperative entity in relation to the credit institution. That appraisal is conducted case by case on the basis of various independence criteria concerning governance, financial autonomy, and the operation of the shareholding cooperative entity. If the credit institution has control or a dominant influence over the cooperative entity, then the latter will be regarded as an *ad hoc* entity belonging to the credit institution (special purpose vehicle/special purpose entity, SPV/SPE); as a result, the shares in the capital of the credit institution subscribed and/or held by the shareholding cooperative entity cannot qualify as CET 1 capital [1].

In its general supervision of the shareholdership of credit institutions, the supervisory authority has to convince itself of the financial soundness of the cooperative entity and the ability of the credit institution concerned to fulfil and continue fulfilling the prudential obligations [2]. In a situation where the sole or principal activity of the cooperative entity consists in holding shares in the credit institution, the cooperative entity's income depends heavily on the dividend paid by the credit institution. The solvency of the shareholding cooperative entity can be seriously impaired if the credit institution gets into difficulty and the value of the shares has to be reduced.

To attenuate the impact of such risks, the shareholder in the form of a cooperative society is asked to have a shareholder's reserve calculated on the basis of the amount of the cooperative capital, in accordance with the same parameters as those that credit institutions established in the form of a cooperative society use to form their prudential reserve [3]. This solvency buffer is thus funded by the allocation of part of the result of the cooperative entity. The cooperative entity should also have a cash cushion in the form of assets that can be easily mobilised [4] other than securities issued by the credit institution concerned, in order to ensure that it is actually possible to redeem members' shares and/or pay a dividend to members out of the capital. That implies that part of the shareholder's reserve calculated on the basis of the paid-up cooperative capital of the said shareholding entity is not invested in securities of the credit institution owned. The amount of the cash cushion required takes account of situations where the shares of the credit institution in question are listed, enabling the shareholding cooperative entity to sell the securities of the credit institution owned in order to acquire the necessary liquidity.

In addition, the shareholding cooperative entity should provide for a block on members' share redemption applications which exceed 10 % of the paid up cooperative capital in a 12-month period. Such a measure may lead to the withdrawal of deposits by members of the cooperative entity who also hold deposits in the credit institution owned. There is therefore provision for reinforcing the LCR of the credit institution owned via reclassification of deposits held by members of the shareholding entity, placing them in the less stable retail deposits category and specifying a higher outflow rate for those deposits.

There are transitional measures to take account of existing situations and to enable credit institutions in the form of a cooperative society and cooperative entities holding shares in a credit institution to take the necessary steps to comply with the planned measures.

1.4.5 Recovery plans

Before the Banking Law came into force, a number of banks which were considered significant at national level had already drawn up recovery plans under the direction of the Bank. The Banking Law now requires all Belgian credit institutions to prepare such a plan.

In the plan, the institution is required to specify crisis scenarios which could threaten its viability, and to analyse the recovery options available to restore its financial health. The bank also has to include in its recovery plan a description of the monitoring arrangements that it has set up to detect any stress at an early stage. Those arrangements must include appropriate indicators so that decisions on activating the plan can be taken in time.

The EBA has produced a set of regulatory technical standards defining the content of the recovery plan. Those standards are in line with the NBB's policy on the subject, and should be read in conjunction with the EBA guidelines on the range of scenarios to be considered in the recovery plans. The EBA is currently also working on a set of guidelines establishing a minimum list of qualitative and quantitative indicators to be specified in the plans.

In addition, the Banking Law requires all banks to include in the monitoring arrangements in their recovery plan two indicators concerning asset encumbrance. Those indicators must ensure that the banks retain sufficient unencumbered assets so that, in the event of failure, they can cover the obligations stemming from the depositor preference rule stipulated by the Banking Law.

(1) Article 24 of Regulation No. 241/2014.
(2) Article 18, paragraph 2, c) and d) of the Banking Law of 25 April 2014.
(3) To prevent a cooperative entity from resorting to excessive debts to fund the investment in the credit institution, the amount of the shareholders' reserve must equal 25 % of the book value of the investment in the credit institution if that amount exceeds 30 % of the paid-up capital of the shareholding cooperative entity.
(4) The liquid asset categories are defined by Commission Regulation No. 2015/61 of 10 October 2014.

With regard to the principle of proportionality, the BRRD and the Banking Law provide that certain banks qualify for simplified obligations concerning their recovery plan. The legal criterion that banks must meet in order to be eligible for a simplified recovery plan is that the failure and liquidation of the institution in accordance with normal solvency procedures would have no significant negative impact on the financial markets, on other institutions or on the rest of the economy. In that context, the EBA has drawn up guidelines on the methodology to be used to determine which banks could qualify for a simplified regime. It should be noted that banks eligible for such a regime will still be obliged to monitor the indicators mentioned above concerning asset encumbrance. Apart from this simplified regime, the Banking Law offers credit institutions forming part of a federation of credit institutions the option of applying for exemption from the obligation to draw up a recovery plan.

Finally, the articles of the BRRD concerning recovery plans for consolidated groups have yet to be transposed into the Banking Act. In accordance with those provisions, group recovery plans must make provision for adopting measures to be implemented at both group and individual level. The Bank has already taken part in the preparation of plans in Crisis Management Groups (CMGs). Apart from the group recovery plan, a subsidiary may also be required to have a separate plan, normally on the basis of a joint decision between the consolidating supervisory authority and the subsidiary's supervisory authority. For banking groups considered to be significant, this joint decision-making process will be equivalent to a decision by the SSM alone, since the latter functions as the supervisory authority of both the parent company and its subsidiaries.

1.4.6 Remuneration policy

When the CRD IV was being transposed into national law, the requirements concerning remuneration policy were incorporated in full in the Banking Law, mainly in Annex II. The chief innovation concerns the introduction of a maximum ratio between variable and fixed remuneration from the 2014 performance year onwards. In particular, the Banking Law stipulates that, for each person, the variable remuneration must in all cases be limited to the higher of the following two amounts, namely 50 % of the fixed remuneration or € 50 000, but without exceeding the amount of the fixed remuneration. This makes the Banking Law stricter than the CRD IV, which specifies a maximum ratio of 1 to 1 between variable and fixed remuneration, with the option for the general meeting to authorise a deviation up to a ratio of 2 to 1. In that connection, on 15 October 2014, the EBA published a report and an opinion on the use of allowances to circumvent the (variable) remuneration rules, i.e. the said maximum ratio.

The Banking Law specifies that the remuneration policy must cover all categories of staff whose professional activities have a material impact on the institution's risk profile. From now on, these so-called Identified Staff must be selected on the basis of the criteria set out in the regulatory technical standards adopted by the European Commission [(1)]. According to the 4th recital and the introductory sentence of Article 2 of the Regulation based on these regulatory technical standards, institutions must also take account of the results of their own risk assessments so that all staff whose professional activities may have a material influence on the institution's risk profile are actually identified. The Bank's guideline, which states that at least 1 % of the total number of staff must be included in this group, has to be seen as a threshold, or in other words as a minimum figure to be applied following the risk analysis.

The 14th recital in this Regulation also specifies that this identification process must be adequately documented, including in respect of staff identified solely on the basis of the level of their remuneration, but who were not ultimately included because their professional activities were considered to have no material impact on the institution's risk profile. This should enable the Bank to see that the identification process operates correctly.

If appropriate, the next stage will be to examine in accordance with the Bank's guideline whether the group of Identified Staff includes employees whose variable remuneration is less than € 75 000. If so, then in view of their low variable remuneration such staff may be exempt from the specific requirements concerning deferral and financial instruments. Obviously, the Bank can always decide to adjust this policy later.

In 2014, the Bank again conducted a detailed horizontal analysis of compliance by large institutions with the rules on remuneration policy. By comparing the institutions with one another according to the same method, the Bank intends to promote a level playing field within the Belgian financial sector. In the event, six large institutions had been included in the analysis, which concerned performance in 2013 for which variable remuneration had been paid at the beginning of 2014. In this connection, the Bank paid particular attention to the use of

(1) Commission Delegated Regulation (EU) n° 604/2014 of 4 March 2014.

mechanisms to help ensure that the remuneration policy is linked to the institutions' risk management.

This fourth horizontal analysis showed that the principles concerning the linking of risk and remuneration policy are generally applied. In this context, the Bank stresses the importance of transparency, not only in relation to itself but also vis-à-vis the various stakeholders. In particular, each institution's remuneration policy must meet the following requirements : (i) exact description of the various components of fixed and variable remuneration ; (ii) use of clear definitions and criteria to measure performance and adjust risks ; (iii) clear description of the decision-making process on remuneration for Identified Staff, particularly the method of deciding on performance assessment and risk adjustment ; (iv) clear description of the interaction with the group's remuneration policy in the determination of bonus pools for the various activities.

In addition, the specific decision-making process concerning performance assessment and risk adjustment must be adequately documented, particularly as regards the interaction between the use of risk-sensitive parameters and discretionary adjustments. Although the Bank understands that decisions are rarely automatic and often require a qualitative judgment, it calls for additional efforts to ensure transparent documenting of the decisions adopted. That enhanced transparency should enable all stakeholders to understand how the (abstract) remuneration policy results in the actual remuneration packages.

In regard to deferral and retention periods, the Bank finds that, overall, these measures are generally limited to the legal minimum and that, in any case, they hardly vary according to differences between staff. The Bank calls for additional efforts in this respect, and refers to the EBA guidelines on remuneration policies and practices, which will incidentally be updated during 2015 to take account of the experience gained since they were first applied in 2011 and the changes made following the CRD IV.

The Bank also expects every credit institution to examine how it will comply with the requirement whereby at least 50 % of all variable remuneration must comprise an appropriate balance between shares or equivalent instruments and, if possible, other capital instruments mentioned in the law. The conditions under which the said capital instruments can be used for variable remuneration are listed in the regulatory technical standards adopted by the European Commission (1).

Finally, on 13 June 2014, the EBA published a report on remuneration practices in the European Union covering the performance years 2010 to 2012. That report is based on remuneration data gathered from a representative number of institutions by the national supervisory authorities, including the Bank. The report reveals a general upward trend in the remuneration of Identified Staff, and a significant degree of switching to fixed rather than variable remuneration. It also highlights a number of other trends at EU level, notably in regard to the number of Identified Staff and the composition of the remuneration.

The EBA has updated the two guidelines relating to this data-gathering. These EBA guidelines, which were implemented in two Bank circulars (2), take the form of harmonised templates to be used by all European supervisory authorities. The first round of data-gathering was completed on 30 November 2014 and concerned performance in 2013. From now on, institutions will have to supply data by no later than the end of June each year.

(1) Commission Delegated Regulation (EU) No. 527/2014 of 12 March 2014.
(2) Circulars NBB_2014_08 and NBB_2014_09.

2. Insurance: preparation for the transition to Solvency II

2.1 International developments: amendments to Solvency II by Omnibus II

The Omnibus II Directive

In 2014, following a lengthy gestation period, the Omnibus II Directive (1) was adopted. Among other things, it amends the Solvency II Directive (2) in two key areas. The first aim is to introduce various measures concerning the technical provisions to compensate for the high volatility of the liabilities due to the calculation methods imposed by the Solvency II Directive. The second aspect concerns adapting the respective powers of the EC and EIOPA and the procedures relating to the Directive's implementing regulations in line with the new hierarchy of European legal rules introduced in the Treaty establishing the European Union (the Level 2 rules).

The Omnibus II Directive also made other changes, notably in regard to determination of the scope of groups subject to the provisions of the Solvency II Directive and the supervision of certain forms of reinsurance and securitisation vehicles.

Measures concerning long-term liabilities

The Solvency II Directive requires the technical provisions to be calculated by discounting outgoing flows (compensation payouts in respect of claims, redemptions, etc.) and incoming flows (premiums, investment income, etc.) so as to arrive at the best estimate of the technical provisions. This discounting is based on the relevant risk-free interest rate curve, each of those rates differing according to the discounting period. Use of this method causes volatility in the technical provisions in proportion to the volatility of the interest rates used to calculate the said curve. Since such volatility is not very compatible with the long-term liabilities of insurers and reinsurers, particularly in regard to life business, the Omnibus II Directive aims to rectify this undesirable effect via various measures.

The first measure concerns the extrapolation of the relevant risk-free interest rate curve, applicable once the bond markets are no longer considered deep, liquid and transparent, i.e. generally for terms longer than 20 years. The curve thus extrapolated tends towards a single interest rate, known as the ultimate forward rate for terms of more than 40 years.

A second measure is the option of applying a matching adjustment to the relevant risk-free interest rate curve. That matching adjustment is equivalent to the difference between the single rate that would have to be applied to liabilities to obtain the best estimate, and the single rate that would have to be applied to those same liabilities to find the value of the assets allocated to cover them. However, the matching adjustment must exclude the fundamental spread that takes account of the probability of default or depreciation of the assets. The application of the matching adjustment is subject to strict conditions, the main ones being that the undertaking must have a ring-fenced fund for the business concerned and must confine itself to single-premium life insurance contracts.

(1) Directive 2014/51/EU of the European Parliament and of the Council of 16 April 2014 amending Directives 2003/71/EC and 2009/138/EC and Regulations (EC) No. 1060/2009, (EU) No. 1094/2010 and (EU) No. 1095/2010 in respect of the powers of the European Supervisory Authority (European Insurance and Occupational Pensions Authority) and the European Supervisory Authority (European Securities and Markets Authority).

(2) Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking up and pursuit of the business of insurance and reinsurance.

The third measure is the option of applying a volatility adjustment to the relevant risk-free interest rate curve. That adjustment is equal to the difference between the interest rates of a reference asset portfolio that may be used to cover the technical provisions, and the rates of the relevant risk-free interest rate curve. That difference is calculated for each currency, and the reference asset portfolio is representative of the insurance and reinsurance products sold on each national market.

The measures on long-term liabilities also include extension of the recovery period applicable to undertakings in the event of a breach of the solvency capital requirement (SCR). While a recovery plan must not normally take longer than nine months, the supervisory authorities may extend that period to a maximum of seven years in the event of the three exceptional circumstances specified by the Directive, namely a sudden, steep fall in financial markets, a persistent low interest rate environment, or a high-impact catastrophic event. The exceptional circumstance must also affect a large part of the market or lines of business concerned, and must have been declared by EIOPA. Of course, the seven-year period is a maximum and the supervisory authorities may specify a shorter period depending on the particular case.

In addition to the four measures described above, there are two transitional provisions. The first, which applies to risk-free interest rates, authorises insurers and reinsurers to replace the rate derived from the relevant risk-free interest rate curve with the rate applicable to the contracts, in accordance with the current legal rules, less the difference between a rate representing the average interest rate on the undertaking's liabilities and the single interest rate which, if it were applied to outgoing financial flows, would permit calculation of the best estimate of the technical provisions. The reduction on account of this difference ranges linearly over 16 years. The measure only concerns contracts concluded before 1 January 2016, excluding renewals of such contracts after that date.

The second transitional measure applies to the technical provisions and concerns all the activities of insurance and reinsurance companies. It enables those companies to switch gradually from the amount of the technical provisions calculated according to the current standards to the amount calculated according to the Solvency II Directive. That is a linear process spread over 16 years.

It should be added that the companies cannot apply all the measures described above simultaneously. Thus, the matching adjustment excludes the volatility adjustment and the transitional measure on risk-free interest rates, and the two transitional measures are mutually exclusive.

The Level 2 rules

In its original version, the Solvency II Directive stipulated that – depending on the case – the EC could or must take measures to implement various technical aspects. Article 301(1) of the Solvency II Directive specified only that the EC "shall be assisted by the European Insurance and Occupational Pensions Committee".

In the new hierarchy of implementing rules under the Directive, the Level 2 rules are divided into three groups according to their initiator, their aim and whether or not the European Parliament and the Council have a right of objection. On the basis of these three criteria, a distinction is made between delegated acts, regulatory technical standards and implementing technical standards.

In all cases, the Level 2 rules require express provision for the delegation of power under the Solvency II Directive. The rules are adopted by the EC in the form of a European Regulation.

TABLE 3 LEVEL 2 RULES

Type of act	Initiative	Adoption	Right of the Parliament and the Council to object
Delegated act	European Commission	European Commission	Yes
Regulatory technical standard	EIOPA	European Commission	Yes
Implementing technical standard	EIOPA	European Commission	No

Source: NBB.

Phasing-in of the Solvency II Directive

The date for entry into force of the Solvency II Directive is set at 1 January 2016. However, the national supervisory authorities must be able to take certain decisions in 2015 in order to ensure a phased introduction.

Thus, from 1 April 2015, the supervisory authorities will be able to approve the use by insurance and reinsurance companies of ancillary own funds, specific parameters in the standard formula for calculating the required solvency capital, internal models for calculating that capital, and the use of various measures relating to long-term liabilities such as those described above. From that same date, the supervisory authorities must be able to determine the scope of groups of companies, identify the group supervisor and establish the college of supervisors for each such group.

From 1 July 2015, the supervisory authorities will be able to take a range of decisions concerning group supervision (deduction of participations, choice of method of calculating the required solvency capital, equivalence of third-country regimes, etc.) or concerning the various transitional measures.

Options introduced by the Omnibus II Directive

During the year under review, the Bank gave its opinion on the two new options offered to the Member States by the Omnibus II Directive. The first option concerns whether to make use of the volatility adjustment for the relevant risk-free interest rate term structure subject to prior authorisation by the supervisory authorities. The Bank decided in favour of a simple notification, since there is only limited scope for refusing use of the volatility adjustment in advance. The notification will enable the Bank to identify and monitor the companies using this technique. The second option is a transitional measure permitting some, but not all, group companies to use the group's internal model up to 31 March 2022. Although the situation concerned does not appear to arise in practice in Belgium, the Bank decided to remove the option for cases where it did arise.

2.2 National developments

Annual accounts of insurance and reinsurance companies

The statutory annual accounts of Belgian insurance companies are currently governed by a specific Royal Decree on accounting[1]. As in other economic sectors, the primary purpose of these annual accounts is to provide information for the public (policy-holders, investors, creditors, staff, etc.), to determine the companies' tax base and to apply certain rules to the companies' activities (dividend payable, minimum capital, bankruptcy, employment law, subsidies, etc.). For the insurance and reinsurance sector, the statutory annual accounts also form the basis of prudential reporting.

This link between the statutory accounts and the prudential provisions will be severed in 2016 on entry into force of the Law transposing the Solvency II Directive, partly because the Directive does not contain a section on statutory accounts and partly because the valuation rules are not comparable in the two reference systems. While the statutory accounts are based mainly on valuation at amortised cost which expresses a realised result, Solvency II adopts a transfer value approach which is quite similar to fair value, expressing the current value of future profits and losses from the point of view of an immediate transfer.

The alternative of basing the statutory accounts on the International Financial Reporting Standards, many of which refer to fair value, cannot be used because of the link between the annual accounts and taxation.

The Bank therefore proposes to maintain the current approach to the statutory accounts but with specific adjustments for insurance and reinsurance companies. The assets will therefore continue to be valued at amortised cost. The profit and loss account will only record income actually realised. Conversely, for the sake of prudence, permanent unrealised losses will be expressed as downward valuations. For consistency with the asset valuation, the current approach will also be maintained for the liabilities, and especially for the technical provisions. However, some of the rules from the current prudential framework will be incorporated, notably in regard to the flashing-light provision[2].

Profit-sharing

The approach adopted in regard to the statutory accounts also makes it possible to continue calculating profit shares on the basis of those same accounts. Nonetheless, the Bank proposes to introduce changes to take account not only of the profits realised by the

(1) Royal Decree of 17 November 1994 on the annual accounts of insurance and reinsurance companies.
(2) Insurance companies whose portfolios comprise contracts with a guaranteed interest rate well above the yields currently obtainable on the financial markets are required to form an additional technical provision, known as the flashing-light provision.

insurance company but also its solvency position and future profitability prospects.

The first concern is to prevent an insurance company from distributing profit shares when its profit is due to exceptional circumstances. To that end, the distribution of profit shares will be subject to a solvency ratio calculated on the basis of the new prudential standards, taking account of the transitional provisions (see section 2.1 of this chapter) that the company implements in order to meet the capital requirements.

The second concern is to prohibit any distribution of profit shares if that is not compatible with the profits that the company is most likely to make in future years while also limiting the amount that can be allocated to the contracts in any one year.

Management committee

For many years now, the prudential supervision authority has recommended all insurance and reinsurance undertakings to set up a management committee in accordance with Article 524*bis* of the Company Code, so as to cope as effectively as possible with the challenges presented by the increasing complexity of conducting the business of financial institutions and the ever more stringent prudential supervision requirements.

The establishment of a management committee, which in principle consists solely of directors, has the advantage of legal certainty, since the Company Code offers a complete framework for the extensive powers delegated to the committee to conduct the effective management of the company, including powers of external representation. The committee also permits clear separation between the management functions devolved to the management committee and the supervisory functions reserved for the board of directors. From that perspective, the management committee has an important advantage over delegation confined to day-to-day operations in that the latter involves the intervention of the board of directors in all acts not covered by that concept. As a result, the board is unable to perform its supervisory function to the full. The formation of a management committee also has the advantage of collegial operation, implying equality, mutual supervision and equal access to information for its members.

In the absence of any legal obligation, the Bank could only recommend the establishment of a management committee, notably via circulars addressed to undertakings subject to supervision. That is why, without waiting for the legislation transposing the Solvency II Directive, a law of 25 April 2014 (1) amended the Law on insurance supervision (2) in order to oblige insurance and reinsurance companies to set up a management committee.

The Law on insurance supervision now includes the obligation on insurance undertakings established in the form of a public company to set up a management committee in accordance with Article 524*bis* of the Company Code. This obligation is extended to insurance companies established in another legal form, notably mutual insurance associations. However, with due regard for the size and risk profile of the undertakings concerned, the Bank may grant waivers in respect of the composition or even the formation of a management committee. The said Law of 25 April 2014 made the same changes to the Law on reinsurance supervision.

Recovery and resolution

A number of initiatives have been taken at international level concerning the recovery and resolution of insurance and reinsurance undertakings. For instance, in 2013, the International Association of Insurance Supervisors (IAIS) formally recommended that all global systemically important insurers (G-SIIs) should draw up and finalise recovery and resolution plans before 2015.

At European level, the European Commission opened a consultation in October 2012 concerning the framework for the recovery and resolution of financial institutions other than banks, in which it found that the recovery plans devised by systemic insurers could help to stabilise those institutions if they were confronted by a financial or operational shock. Once the consultation was over, the European Commission announced its intention to initiate legislation on the resolution framework applicable to financial institutions other than banks.

The legislation currently in force in Belgium stipulates various "plans" for insurers or reinsurers encountering severe financial problems and, more particularly, for those which no longer have the level of capital required by the supervision legislation. The major difference between these plans and the ones envisaged by the international recommendations is that they are drawn up *ex post*, i.e. only after it emerges that there are problems. In contrast, the international recommendations advocate the obligation to draw up this type of plan *ex ante*, namely before the institutions get into difficulties.

(1) Law of 25 April 2014 containing miscellaneous provisions.
(2) Law of 9 July 1975 on the supervision of insurance undertakings.

In the light of the above, the Bank launched a pilot project with an insurance company, even though the preparation of a recovery plan had initially concerned credit institutions. This pilot project was conducted and evaluated in 2014.

Supervision of occupational pension providers

At the end of 2013, the Bank and the FSMA had each submitted a report to the Minister for Economic Affairs concerning the organisation of the supervision of occupational pension providers. The lawmakers opted for the status quo, namely maintenance of FSMA supervision of institutions providing occupational and supplementary pensions [1].

2.3 EIOPA stress tests

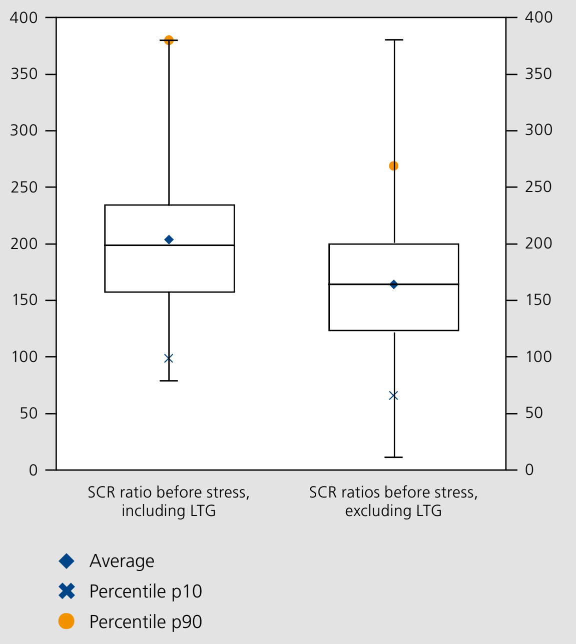
On 30 April 2014, EIOPA launched its second stress test for the European insurance sector. That exercise was based on the latest known technical specifications of the future Solvency II regime. Part of the Belgian insurance sector participated in this stress test under the supervision of the Bank. The test comprised two quantitative modules, each supplemented by a number of qualitative questions:

– A core – or basic – module testing the financial resilience of the insurance sector via two consistent scenarios relating to market risks (core 1 and core 2) and via a range of sensitivity tests relating to insurance techniques. In the two market scenarios, insurers were subject to a range of stresses relating mainly to market risks, namely interest rate risk, credit risk (resulting from widening credit spreads), equity risk and real estate risk. The main feature of the core 1 scenario comprised increased levels of stress for government bonds, equities and property, while the core 2 scenario consisted primarily of higher stress levels for corporate bonds. The specific sensitivity tests chiefly concerned the risks relating to insurance techniques, namely mortality risk, the risk of longer life expectancy, the risk of natural disasters, the risk of rising inflation weighing on the amount of the claims provisions, and the surrender risk.
– A low-yield satellite module which specifically concerns the low interest rate environment. In this module, two possible risk-free interest rate curves are tested, namely a curve reflecting a Japanese-style scenario, with low interest rates throughout all terms, and an "inverted" curve with an increase in short-term rates and a fall in long-term rates.

At Belgian level, a total of 19 undertakings took part in the stress tests, 9 of them for the core module and 17 for the low interest rate module. On a solo basis in Belgium, the participation rate thus came to 62.6 % for the core module (in premium volume) and 96.35 % for the low interest rate module (in the volume of the technical provisions) [2]. The results for the Belgian market are aggregated and discussed below.

For all 19 stress test participants, the chart shows a box plot [3] of the distribution of the SCR ratio [4] before application of the test. The average SCR ratio calculated on the basis of the standard Solvency II formula came to 204.39 % before the test, indicating a comfortable starting position. In that regard, however, it should be noted that the companies were free to apply long-term guarantee measures (LTG). Once the Solvency II regime enters into

CHART 5 SCR RATIOS – SITUATION BEFORE THE STRESS TEST
(box plot [1], in %)



Sources: NBB.
(1) A box plot is a simplified presentation of the data distribution; read from the bottom to the top, it shows the minimum values, the first quartile, the median, the third quartile and the maximum.

(1) Article 53, 7°, of the Law of 19 April 2014 inserting book VII "Payment and credit services" in the Economic Code, and inserting definitions specific to book VII and penalties for infringements of book VII, in books I and XV of the Economic Code, and containing various other provisions.
(2) EIOPA was only given the results for some of these firms, enough to satisfy the minimum participation required by EIOPA, namely a market share of at least 50 %. This part of the stress test concerned 3 insurance groups/companies for the core module and 5 insurance companies for the low interest rate module.
(3) A box plot is a simplified presentation of the data distribution; read from the bottom to the top, it shows the minimum values, the first quartile, the median, the third quartile and the maximum.
(4) The SCR ratio is calculated as the ratio between the own funds and the capital requirements.

force, most of those LTG measures will have to be approved by the supervisory authority. However, no restrictions were imposed for the stress test, which makes it difficult to compare the results and interpret them unequivocally. That is why the chart makes a distinction between the results with and without the LTG measures. Of the 19 companies, 5 opted not to apply LTG measures. On the basis of the pre-test results, these LTG measures had an average impact of 40.8 % on the SCR ratio (average SCR ratio without LTG = 163.6 %).

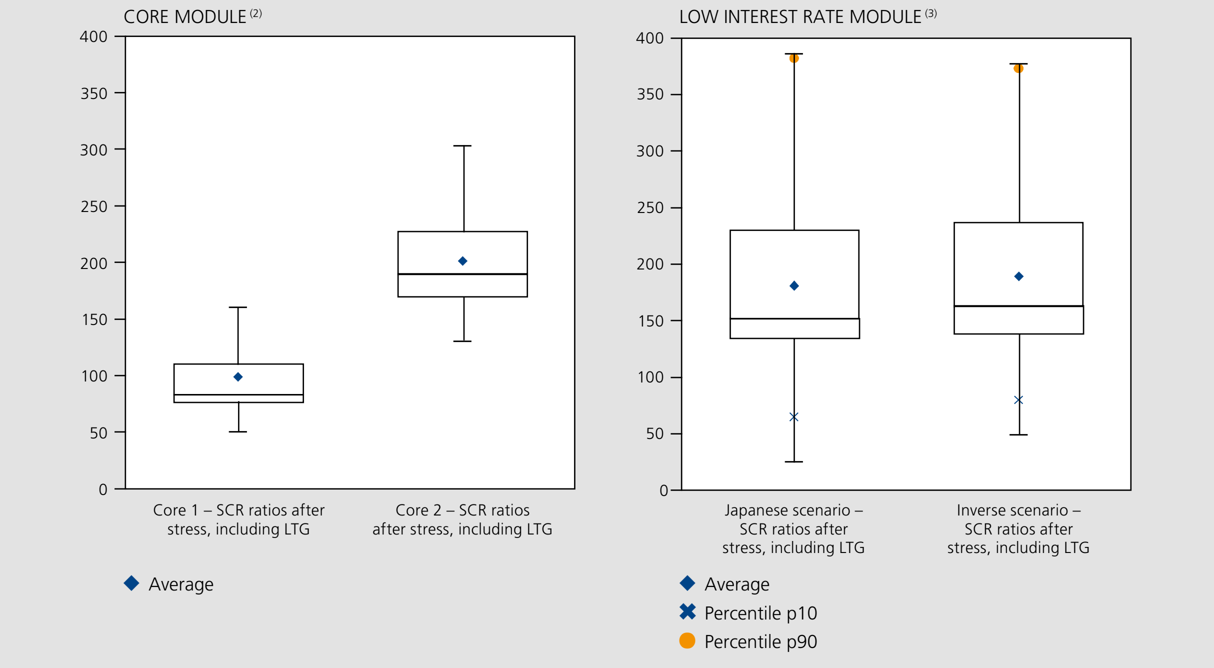
Next, the box plot on the left-hand side of the chart shows the distribution of SCR ratios following application of the two market scenarios. The chart shows that, for the 9 participants in the core module, it is mainly the first core scenario that has a marked impact on the Belgian participants. The average SCR ratio including LTG measures came to 99.1 % after core 1 and 201.3 % after core 2. As expected, the sudden shock to spreads on certain government bonds combined with the sudden shock affecting equities (41 %) and property (49 % for commercial property) and the lack of any compensatory downward effect from the decline in swap rates on the bond portfolio (see the double-hit principle [1]) had a significant impact at sectoral level.

Finally, the box plot on the right-hand side of the chart presents the distribution of the SCR ratios for the 17 participants in the low interest rate module. This shows that the impact of the two changes in the yield curve was generally similar. The Japanese-style scenario proved to be the most severe; that was predictable, given the still high guaranteed rates on certain products prevailing on the Belgian market. The average SCR ratio including LTG measures came to 181.3 % for the Japanese scenario and 189.1 % for the inverse scenario. Depending on the scenario, the proportion of firms failing to meet a 100 % SCR ratio came to 24 and 18 % respectively. Obviously, the results of this EIOPA stress test will be a significant input in the definition of the priorities and tasks for operational supervision in the context of the preparations for the future Solvency II regime.

(1) The double-hit principle meant that the decline in risk-free swap rates was offset by a widening spread on bonds in the interest rate module, which implied that bond values remained unchanged in this module. On top of this effect, one should add the increase of the spread following the spread module.

CHART 6 SCR RATIOS – SITUATION AFTER THE STRESS TEST

(box plot [1], in %)



Source: NBB.
(1) A box plot is a simplified presentation of the data distribution; read from the bottom to the top, it shows the minimum values, the first quartile, the median, the third quartile and the maximum.
(2) The data concern 9 participants.
(3) The data concern 17 participants.

3. Central Securities Depositories Regulation and recovery plans for financial market infrastructures

3.1 Central Securities Depositories Regulation

Central securities depositories (CSDs) are transaction-processing infrastructures that ensure the smooth functioning of the financial markets and guarantee that securities transactions will be executed properly and on time, including in periods of extreme stress. Owing to their key position in the settlement process, CSDs are of systemic importance for the functioning of the securities markets. CSDs are also vital intermediaries in the provision of collateral.

The lack of common prudential rules in the EU implies additional costs and risks for cross-border transactions and is detrimental to security, efficiency and competition on cross-border markets. The CSD Regulation (1) which came into force on 17 September 2014, introduces uniform prudential rules applicable to the authorisation, supervision and organisation of CSDs and introduces a harmonised settlement cycle for transactions on regulated markets. This European Regulation generally reflects the international principles for financial market infrastructures laid down by the Committee on Payments and Settlement Systems and the International Organisation of Securities Commissions (CPSS-IOSCO). One of the CPSS-IOSCO principles requires CSDs to settle the "cash" leg of securities transactions wherever possible by means of accounts held with a central bank, in order to avoid credit risk and liquidity risk. If that is not practicable, the CSD may, under certain conditions, effect settlement via accounts with a credit institution or by offering cash accounts itself. The CSD Regulation specifies that any CSD authorised as a credit institution and any credit institution designated to settle the cash leg of transactions must confine their activities solely to the ancillary banking activities listed in the Regulation.

The CSD Regulation also stipulates that, in the EU, all securities admitted to trading or traded on regulated platforms must be recorded in book-entry form, in order to increase the efficiency of settlement and ensure the integrity of securities issues. The CSD Regulation allows issuers to choose any CSD established in the European Union for recording their securities and providing the CSD services that they deem appropriate; this enables issuers to choose the best offer for the administration of their securities.

In addition to the CPSS-IOSCO principles, the CSD Regulation also provides for a penalty regime and buy-ins – aiming to penalise failure to settle transactions on the intended settlement date.

3.2 Recovery plans for financial market infrastructures

In accordance with the CPSS-IOSCO principles for financial market infrastructures, the latter must draw up recovery plans to ensure the continuity of their critical services in the event of financial stress. In that connection,

(1) Regulation (EU) No. 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No. 236/2012.

the Committee on Payments and Market Infrastructures (CPMI[1]) and IOSCO published guidance in October 2014 on the drafting of these recovery plans. That will be incorporated in EU legislation in the near future.

According to that guidance, the recovery plan must comprise the following main elements: the list of critical services that the infrastructure provides, the extreme scenarios considered, the triggers for implementation of the plan, and the recovery tools.

In Belgium, this international guidance applies in particular to the various Euroclear entities. The Bank is currently examining the conformity of the recovery plans of these CSDs.

The evaluations are coordinated with the supervisory and oversight authorities of the other CSDs belonging to the group. This coordination is vital to ensure that the various plans are consistent.

(1) The Committee on Payment and Settlement Systems (CPSS) was renamed the Committee on Payments and Market Infrastructures (CPMI) on 1 September 2014. The old name is used for reports prior to that date.

4. Macroprudential policy

4.1 The Bank's new powers

The Law of 25 April 2014 [1] designated the Bank as the macroprudential authority. This new mandate was incorporated in the Bank's Organic Law as an element of its mission of contributing to financial stability. Belgium has thus complied with a recommendation by the European Systemic Risk Board (ESRB) asking each EU Member State to officially designate such an authority.

However, the recent allocation of that function to the Bank does not imply that it had not already been involved for a long time in supervising the stability of the financial system as a whole. Thus, its Organic Law already stated that the Bank was to contribute to financial stability. In that context, the Bank conducts analyses, and since 2002 has published a Financial Stability Review (FSR), to identify and assess the various factors that may impair the resilience of the financial sector. However, the new mandate introduces formal arrangements for performing that mission and gives the Bank specific means of action.

For instance, the Bank now has the power to ask for relevant information and statistical data necessary for performing its mission, not only from institutions under its supervision but also from any other entity that could create systemic risks, such as financial institutions not directly subject to regulation (e.g. entities in the shadow banking system). The Bank can also make recommendations if it considers that certain authorities or entities need to implement measures to prevent the occurrence of systemic risks.

(1) Law of 25 April 2014 establishing mechanisms for a macroprudential policy and defining the specific tasks delegated to the National Bank of Belgium as part of its mission to contribute to the stability of the financial system.

More fundamentally, the new Law offers the Bank a wide range of instruments for use in the event of a potential risk to financial stability. Some of those instruments had been initially intended solely for microprudential purposes, but they may also be used from a macroprudential perspective. For example, the Bank can impose additional capital requirements – such as the leverage ratio – or liquidity requirements, either in general or more specifically targeting certain risk exposures. Furthermore, limits can be set for certain types of counterparties or categories of business. Other instruments are more macroprudential in character. They include measures concerning mortgage debt in relation to the value of the property, or the level of debt repayments in relation to income. These last measures can be implemented by the government, notably on the recommendation of the Bank.

Breaches of the legal provisions may attract penalties in the form of fines. In view of the importance of these new tasks, the law also stipulates that the Bank must report to Parliament on the performance of its mandate, in particular by publishing an annual report. To meet that requirement, the Bank decided that the FSR would be replaced from 2015 by a special report which will also include a description of the risks to financial stability, an overview of any recommendations made by the Bank as the macroprudential authority, and an activity report.

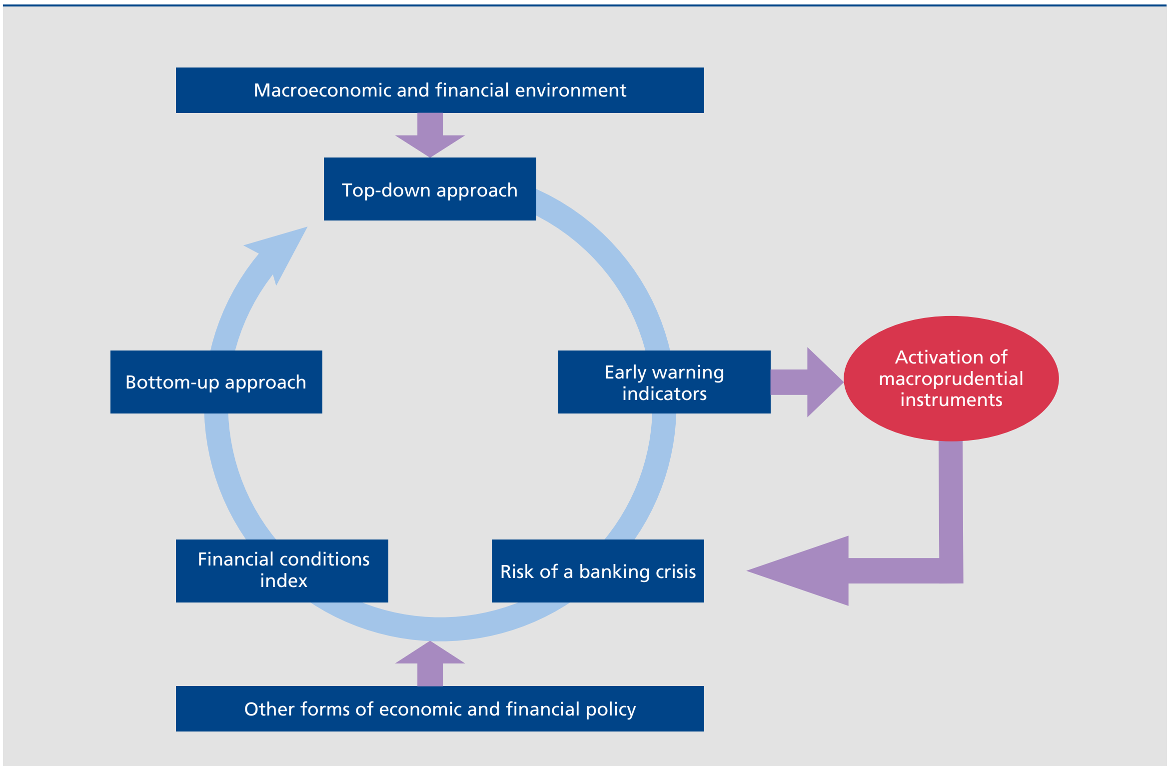
4.2 Exercise of macroprudential powers by the EU and the ECB

In so far as the macroprudential policy can be activated to avert financial instability risks resulting from cyclical or structural developments, that policy clearly has a national dimension. However, the European financial markets have now become closely integrated following the completion of the Single Market in the EU, the introduction

Box 3 – Analysis of macroprudential risks

The maintenance of financial stability implies two main aims for macroprudential policy. The first, which concerns the cyclical dimension, is to restrain the development of systemic vulnerabilities in certain periods by forming financial buffers to absorb the effects of aggregate systemic shocks and help to maintain lending to the economy in a recession. The second aim is to control the structural systemic risks resulting from vulnerabilities such as the interactions between financial intermediaries, the concentration of institutions' exposures and the crucial role that they play on significant markets, all factors which may make them too big to fail.

ANALYSIS OF MACROPRUDENTIAL RISKS AT THE BANK



Source: NBB.

An effective macroprudential policy is not possible without regular, detailed analysis of the risks that may threaten financial system stability and the resulting vulnerabilities for systemic financial institutions or for the sector as a whole. The macroprudential risk analyses that were conducted and debated at the Bank by various committees during the year under review were based on three different pillars which were examined side by side to arrive at an overall view. Those three pillars can be described respectively as a top-down approach, a bottom-up approach and a modelled identification of the potential threats to the financial stability of the Belgian financial sector.

– The top-down approach is based on analysis of general economic and financial developments backed by the assessment of the relevance of a whole range of economic parameters such as economic growth, macroeconomic imbalances, interest rate levels, the sustainability of public finances, the trend in lending, the financial situation of households and businesses, the trend in house prices, etc. This approach consists in determining the potential risks to the profit and loss account and balance sheet of Belgian banks, insurers and financial market infrastructures, and the associated consequences for financial stability.

– The bottom-up approach aims to establish the main points for attention in the ongoing risk analyses in the departments of the Bank responsible for the microprudential supervision of Belgian banks, insurers and financial market infrastructures. Those points emerge in particular from the analysis of developments specific to the various institutions viewed individually, and the sector-specific challenges, and may or may not be connected with changes in the macrofinancial parameters.
– The third pillar is an approach based more on models and intended to detect potential threats to the stability of the Belgian financial sector. It consists in first determining thresholds for a broad range of indicators concerning a number of sectors in the economy. Each threshold determines the intensity of the risk signal given by the indicator for a specific prediction horizon. Various methods are used to specify these thresholds, including a statistical methodology for devising early warning indicators to prevent bank crises. Next, the information supplied by the many indicators is collated in aggregate systemic risk readings. These aggregate values give the estimated probability of a banking crisis over a specified prediction horizon on the basis of a logistical function that links the indicators to past banking crises, and using a financial conditions index (FCI) calculated on the basis of a series of indicators relating to credit trends, the banking sector, the level of debt in the economy, the property market and current developments on the financial markets. Sub-indices are calculated for each aspect and are then aggregated into an FCI, taking account of their weightings and any endogeneity in the risks.

This macroprudential risk analysis forms the basis for defining areas of potential risk that require more detailed analysis, and for deciding on potential policy measures to be taken, including the activation of macroprudential instruments. The expected or actual effects of such measures taken previously are then incorporated in subsequent risk analyses.

of a common currency in the euro area, and the recent establishment of the SSM. As a result of these changes, Member States can no longer take action in isolation. The use of the macroprudential instruments is therefore circumscribed by European legislation to prevent uncontrolled use for the purpose of circumventing the harmonised banking and financial regulations (single rule book).

Within the limits set by the European legislation, the conduct of macroprudential policy is a competence shared by the euro area countries and the ECB. The SSM Regulation provides that, so long as they inform one another in advance, both the national competent authorities and the ECB may impose macroprudential requirements for systemic purposes. It follows that these respective powers will reinforce and supplement one another. However, the SSM Regulation allows the ECB to tighten up the regulatory requirements for macroprudential reasons by using instruments provided for by European legislation, but it cannot relax those requirements.

To maintain some cohesion in the respective powers and thus ensure that a coordinated macroprudential policy is implemented at the level of the SSM, internal structures were set up in the ECB bringing together all the national central banks or national supervisory authorities and the ECB. These arrangements are consistent with those set up at SSM level in order to ensure a degree of harmonisation and to optimise the development of macroprudential policy in Belgium [1].

4.3 Implementation of macroprudential policy in Belgium

In 2014, the Bank's Board of Directors met on two occasions, on 14 May and 7 October, in connection with its new macroprudential tasks. Each of these meetings at which the Bank acts officially as the macroprudential authority is preceded by preparation and coordination meetings between the Bank's services closely involved in monitoring developments on the markets and in financial institutions. During these consultations, attention focuses first on the major risks which could damage financial stability. The Bank also proceeded to phase in a conceptual framework for the selection, calibration and assessment of the macroprudential policy instruments. Box 3 presents a general outline of this new reference framework.

(1) Collin M., M. Druant and S. Ferrari (2014), "Macroprudential policy in the banking sector: framework and instruments", Financial Stability Review, National Bank of Belgium, 85-97.

At its first meeting on 14 May, the Bank confirmed two macroprudential measures. Taking account of the recent property price rises and the economic uncertainty that could hamper borrowers' future repayment capability, the Bank decided to increase by 5 percentage points the risk weighting ratios applied to mortgage loans, as those ratios were significantly lower than the ones in force in most neighbouring countries, reflecting the absence of any serious property crisis in Belgium in recent decades(1). For that purpose, the Bank made use of Article 458 of the CRR(2) and obtained authorisation from the European authorities to do so. Also, in the context of discussions on the need for structural reforms in the banking sector, the Bank decided to impose a capital surcharge on trading activities above a certain threshold. This capital surcharge will be applied under pillar 2 as a macroprudential measure, in accordance with Articles 103 and 104 of the European CRD IV Directive transposed into Article 154 of the Banking Law.

Apart from these measures, the Bank maintained a close watch on risks to financial stability in Belgium. As explained in chapter 3, section 3.4 of the part of the Report on "Economic and financial developments", the Bank was alert to the impact of the economic gloom on the financial situation of banks and insurance companies. Taking account of the constant pressure on the profitability of financial institutions, in its press release at the end of the second meeting on 7 October 2014, the Bank urged financial institutions to continue their restructuring process and their rationalisation programme. Banks and insurers must further improve their solvency position and, to that end, they must if necessary limit the distribution of profit shares to their customers and the payment of dividends to their shareholders in order to safeguard their business in the long term. For the same reason, the Bank also urged insurers to be cautious when considering the realisation of profits. Moreover, the Bank takes the view that the maximum guaranteed interest rates for new group and individual insurance contracts must be reduced to offer a more accurate reflection of market conditions.

Finally, particular attention also focused on commercial property market developments and the growing importance of commercial property in the portfolio of Belgian financial institutions in recent years. In that context, banks and insurers were asked to improve the exhaustiveness and accuracy of the data on the commercial property market and to arrange regular appraisal of their collateral by outsiders, in order to ensure that those assets are correctly and prudently valued in their balance sheet.

(1) "The Belgian mortgage market: recent developments and prudential measures", Financial Stability Review, National Bank of Belgium, 113-122.

(2) Article 458 of the CRR offers the national competent authorities increased flexibility in the event of the emergence of systemic risks in cases where the macroprudential instruments explicitly provided for by the CRD would be inappropriate or insufficient. However, that additional flexibility is strictly regulated by the various international institutions which, in this regard, apply relatively onerous mandatory procedures for the notification of the competent European institutions (EBA, EC, ESRB).

5. Supervision framework applicable to all sectors

5.1 Measures to combat money-laundering

Mutual evaluation of Belgium by the Financial Action Task Force

In the initial months of 2014, the Belgian authorities responsible for combating money-laundering and the financing of terrorism and the proliferation of weapons of mass destruction (AML/CFT) continued the preparations for the fourth mutual evaluation of Belgium by the Financial Action Task Force (FATF) that had begun in 2013 [1]. As the supervisory authority, the Bank contributed to this important effort. This work was carried out in accordance with the new mutual evaluation methodology [2], which is an extension of the 40 new recommendations adopted by the FATF in February 2012 [3].

At the end of 2013, the information necessary for assessing the technical compliance of the current provisions with all the requirements of the FATF standards had been forwarded to the evaluation team. Next, in January 2014, the Belgian authorities compiled the information dossier and passed it to the assessors for the evaluation of the effectiveness of the AML/CFT mechanisms applied. Those authorities also had to answer a very large number of additional questions that the assessors raised in order to complete their understanding of those mechanisms.

After acquainting themselves with this large volume of information, the FATF assessors spent more than two weeks on a visit to Belgium. The detailed talks with the various Belgian authorities concerned and with the representatives of the financial institutions and non-financial undertakings and professions subject to the AML/CFT obligations enabled the assessors to enhance and clarify their analyses. These meetings were held on the basis of a "scoping note" identifying the main risks facing the country and the main questions arising from the information supplied in advance.

Following this site visit, there was continuing close contact between the assessors and the Belgian authorities throughout the second half of 2014, in a dialogue aimed at refining the draft mutual evaluation report on Belgium. That report will be mainly concerned with determining the effectiveness of AML/CFT in Belgium on the basis of the evaluation of the technical compliance of the legal and regulatory framework which is an essential precondition.

In this connection, it must be stressed that, in order to avoid a rapid succession of changes to the legal and regulatory framework, the Belgian authorities decided not to adapt that framework in line with the new 2012 FATF standards immediately, but to make the necessary changes for that purpose via the transposition of the 4th EU Money-Laundering Directive [4], which is currently in preparation. Since Belgium is among the first four countries to be assessed on the basis of the new international standards, that decision meant that, on the date of the evaluation, the Belgian legal and regulatory framework did not yet take full account of the innovations in those standards. Logically, that decision will mean a lower level of technical compliance than at the time of Belgium's previous evaluation in 2005. However, most of the comments that the 4th evaluation report will make in that connection will apply only temporarily, until the 4th Directive is transposed into Belgian law.

(1) See NBB, Box 3 of the part of the 2013 Report on "Prudential regulation and supervision".
(2) FATF, "Methodology for assessing technical compliance with the FATF recommendations and the Effectiveness of AML/CFT systems", February 2013.
(3) FATF, "International standards on combating money laundering and the financing of terrorism and proliferation – the FATF Recommendations", February 2012.
(4) Proposal for a Directive of the European Parliament and of the Council on the prevention of the use of the financial system for the purpose of money-laundering COM(2013)0045 – C7-0032/2013 – 2013/0025(COD).

The assessment of the effectiveness of the AML/CFT mechanisms actually implemented in Belgium will distinguish between their various components, including the application of preventive measures by financial institutions and non-financial professions subject to the AML/CFT obligations, and supervision of those measures by the competent authorities. It will also contain specific, detailed recommendations that the FATF will address to Belgium to provide even more effective protection against these harmful phenomena. As regards the supervision of financial institutions for which the Bank has competence, the FATF is likely to recommend deepening of the Bank's risk-based approach and a stronger focus on risks specific to money-laundering and terrorist financing, reinforcement of on-site inspections, and greater use of administrative penalties where serious shortcomings are found. To achieve these objectives, it will probably be recommended that the resources allocated to all these tasks should be considerably stepped up.

The evaluation report will be discussed at the FATF's plenary meeting in February 2015. It will then be made public and published on the FATF's website; after that, the FATF will ensure appropriate monitoring of the actual implementation of the specific recommendations addressed to Belgium.

The periodic questionnaire for financial institutions supervised by the Bank

During January and February 2014, the financial institutions which come under the Bank's supervisory powers responded for the first time to the periodic questionnaire on the prevention of money-laundering and the financing of terrorism drawn up by the Bank. The aim of the questionnaire is to provide systematic, uniform information on each financial institution's compliance with the legal and regulatory prevention obligations. The Bank uses that information as the basis for its assessment of the vulnerabilities of each financial institution to the risks of money-laundering and terrorist financing, that assessment being a vital element of the risk-based approach to the exercise of supervision.

In order to obtain the same quality information on payment institutions and electronic money institutions authorised in other Member States of the European Economic Area and pursuing their activities in Belgium via agents or distributors, the scope of the periodic questionnaire was also extended at the beginning of 2014 to include the ALM/CFT "central contact points" that those institutions have to designate in Belgium. Institutions with large networks of agents or distributors in Belgium, or those which engage in activities on a significant scale are now requested to answer the full questionnaire in the same way as Belgian institutions. Conversely, taking account of the principle of proportionality, an abridged version of the questionnaire was produced for institutions with smaller networks of agents or distributors in Belgium, or those operating on a smaller scale.

On the basis of the analysis of the questionnaire responses supplied for the first time in 2014 by financial institutions, and in order to further enhance the questionnaire's relevance and usefulness for supervision, the Bank also updated the questionnaire during the second half of 2014. Thus, in September 2014, it sent out the questionnaire (1) that financial institutions will be requested to answer in January and February 2015 on the basis of their situation as at 31 December 2014, as experience had shown that some questions needed to be refined and that it was desirable to add an extra chapter to the questionnaire to cover obligations concerning electronic funds transfers as well. Furthermore, an English version of the questionnaire was made available to financial institutions.

The joint NBB-FSMA circular on recent developments in the prevention of money-laundering

In 2012, significant money laundering risks associated with certain transactions in gold and precious metals involving large cash movements were discovered by the Financial Intelligence Processing Unit. Since financial institutions subject to the supervisory powers of both the Bank and the FSMA are exposed to those risks, the two authorities agreed to send all those institutions a joint circular (2) on this subject. That circular draws attention to the new legal restrictions on cash payments inserted in the Anti-Money-Laundering Law of 11 January 1993 and to the recommendations on large cash movements already contained in Circular CBFA_2010_09 of 6 April 2010. The two authorities repeated that, in general, they considered the risks associated with transactions and business dealings involving large cash movements required the application of stronger vigilance measures, whatever the customer's sector of activity.

This joint circular also draws the attention of financial institutions to the statutory extension of the underlying offences of money-laundering in the sphere of tax evasion, and to the publication of the Royal Decree establishing

(1) Via Circulars NBB_2014_11 of 22 October 2014 and NBB_2014_12 of 22 October 2014.
(2) Circular NBB_2013_16/FSMA_2013_20 of 18 December 2013 on recent developments relating to the prevention of money-laundering.

the list of the third countries with anti-money-laundering legislation equivalent to the European legislation and the European public authorities and institutions regarded as presenting low risks [1].

5.2 Auditor accreditation programme

Introduction

During the year under review, the Bank conducted two accreditation programmes for auditors wishing to take on auditing mandates, one for insurance companies (in February 2014) and another for financial institutions [2] (in October 2014). The organisation of these accreditation programmes should be viewed in the context of the particular importance that the legislature attaches to these auditors' contribution to the prudential supervision of financial institutions and insurance companies.

In Belgium, every large [3] undertaking is required to appoint a statutory auditor whose primary task is to audit the annual accounts drawn up by the undertaking. In particular, he must check whether those accounts provide a true and fair view of the undertaking's assets, financial situation and results.

Given the importance to society of financial institutions and insurance companies in the financial landscape, the Belgian legislators wanted to further reinforce the auditor's function in the supervision of these institutions as opposed to non-financial corporations. From that perspective, the law first specifies that not all auditors can be appointed as the auditor of a financial institution or an insurance company. For such institutions, the post of auditor can only conferred on auditors who have been accredited for that purpose by the Bank. Next, the law also stipulates that accredited auditors who are appointed as the auditor of a financial institution or insurance company must cooperate in the prudential supervision exercised by the Bank, on their exclusive personal responsibility. That obligation implies that, apart from the tasks relating to company law, they have to carry out a range of specific tasks in connection with the Bank's supervision of those institutions.

Auditor accreditation system: conditions

Accreditation is granted separately for financial institutions on the one hand and insurance companies on the other. An auditor accredited to fulfil auditing mandates for financial institutions therefore cannot be appointed as the auditor of an insurance company unless the Bank has also granted accreditation for that purpose.

To obtain either or both of these accreditations, every auditor must take an examination arranged by the Bank in the framework of an accreditation programme. The organisation and process of such a programme and the conditions that auditors must meet in order to obtain accreditation are described in the Bank's new accreditation regulation of 21 December 2012 [4], which replaces the old accreditation regulation of the Banking Finance and Insurance Commission (CBFA).

The Bank initiates the launch of an accreditation programme by publishing a call for candidates in the Belgian Official Gazette (Moniteur belge/Belgisch Staatsblad). Auditors wishing to take part have to submit an application with a statement of reasons and a dossier to the Bank by the set deadline. The Bank can then organise a written and/or oral examination to ensure that the auditors satisfy the accreditation conditions. These conditions include [5]:

- personal registration at the Institut des réviseurs d'entreprises/Instituut voor Bedrijfsrevisoren;
- at least five years' relevant professional work to gain sufficiently broad experience, notably in regard to the planning, organisation and execution of corporate audits;
- detailed knowledge of the nature and technique of operations specific to financial institutions and insurance companies, and of the public supervisory regime;
- an organisation appropriate to the execution of mandates in financial institutions and insurance companies.

Auditors who pass the examination and obtain accreditation are registered on the Bank's list of accredited auditors. That list is available on the Bank's website [6]. Accredited auditors are registered for a six-year period during which they must continue to meet the accreditation conditions. Before the expiry of this first period of six years, auditors can apply to the Bank for renewal of their accreditation for a further six years. The Bank may grant or reject such requests, giving the reasons for its decision

(1) Royal Decree of 19 July 2013 establishing the list of equivalent third countries and the list of European public authorities or institutions referred to respectively in Article 37, § 2, paragraph 1, 2° and 5° of the Law of 11 January 1993 on the prevention of use of the financial system for the purpose of money-laundering and terrorist financing, Moniteur belge/Belgisch Staatsblad of 25 July 2013.

(2) Namely: credit institutions, investment firms, financial holding companies, mixed financial holding companies, settlement institutions, electronic money institutions and payment institutions.

(3) See the criteria listed in Article 15 of the Company Code.

(4) Regulation of the National Bank of Belgium of 21 December 2012 on the accreditation of auditors and firms of auditors, approved by the ministerial decree of 28 June 2013, Moniteur belge/Belgisch Staatsblad of 9 July 2013.

(5) For a complete list of the conditions, see Articles 2 and 3 of the Bank's accreditation regulation of 21 December 2012.

(6) For financial institutions: http://www.nbb.be/pub/cp/domains/ki/li/rev_li.htm?l=fr&id=er; for insurance companies: http://www.nbb.be/pub/cp/domains/vo/li/comm_li.htm?l=fr&id=cr.

in the latter case. There is no limit to the number of times that an accreditation can be renewed.

The Bank may also revoke the accreditation at any time, e.g. if the accredited auditor no longer meets certain accreditation conditions, is no longer capable of performing his duties, or cannot demonstrate the necessary competence and diligence for fulfilling his obligations to the Bank. Finally, the accreditation expires automatically in certain circumstances, such as if the accredited auditor has not executed any auditing mandate for an institution subject to prudential supervision over a three-year period.

Special tasks and obligations of accredited auditors

Accredited auditors who are appointed as auditor for a financial institution or insurance company are required to execute certain specific tasks, in addition to the ordinary tasks described in the Company Code, in connection with their duty to cooperate in the Bank's prudential supervision. Those special tasks are described in the laws on supervision, and are specified in the circular published by the Bank [1].

The accredited auditors' assignment can be divided into two sections:

- issuing a periodic opinion (twice-yearly) on the "correct and complete" character of all the prudential and financial periodic statements that the institutions are required to submit;
- evaluating the institutions' internal control measures, including those that institutions have taken to remedy identified shortcomings.

The Bank may also ask the accredited auditors to produce a special report on the organisation, activities and financial structure of the institution of which it is the auditor.

Finally, accredited auditors are also subject to a duty to report (signal function) whereby they must submit a report to the Bank on their own initiative as soon as they become aware of any of the following in the course of their mandate for a financial institution or insurance company:

- decisions, facts or developments which could have a material influence on the institution's financial situation or on its administrative or accounting organisation or its internal control;
- decisions or fact that could constitute violations of the Company Code, the articles of association or statutes, the law or any other relevant regulation;
- other decisions or other facts which could lead to refusal or reservations regarding the certification of the annual accounts.
- other decisions or other facts which could lead to refusal or reservations regarding the certification of the annual accounts.

(1) Circular NBB_2012_16 of 21 December 2012 on the duty of accredited auditors to cooperate.