



CENTRAL BANK OF CYPRUS

EUROSYSTEM

DRAFT REVISED TERMS OF REFERENCE DL April 1 2013

Independent Commission on the Future of the Cyprus Banking Sector

Revised Terms of Reference

Context

The crisis in the Cyprus banking sector requires solutions which deal both with the immediate consequences of the financial agreement with the EU, the ECB and the IMF (the Memorandum of Understanding, MoU) and with the longer-term implications for the role of the banks in the Cyprus economy.

The Central Bank of Cyprus (CBC) will be working closely with the relevant authorities to ensure that the banking system is restructured in an orderly way, and that a return to normality can be achieved as soon as possible. However, urgent thought also needs to be given to the longer-term implications of the restructuring agreement and other requirements in the MoU, which will affect the future of the Cyprus banking system.

In November 2012, the CBC established an independent Commission of experts to examine the banking sector with a view to making concrete and practical recommendations about its future. In light of subsequent events, the CBC has revised the terms of reference to focus the Commission's work more directly on the longer-term consequences of the MoU for the banking sector.

Scope and objectives

Under the revised Terms of Reference, the Commission will make recommendations regarding:

- the optimal size and structure of the Cyprus banking sector in the longer term;
- the strengthening of prudential regulation and supervision of the banking sector, including the governance of the Central Bank;
- the improvement of corporate governance in Cyprus banks;
- the improvement of levels of banking competition and service quality for the benefit of consumers and businesses.

In particular, the Commission will focus on the following issues:

- Reducing systemic risk and moral hazard in the banking sector;
- Reducing both the likelihood and impact of bank failures, including in terms of the cost to taxpayers; and

- Ensuring competition and consumer choice so that the needs of banks' customers (both individuals and businesses) are efficiently served.

In developing its recommendations, the Commission will take into account:

- the causes of banking sector problems in Cyprus (as described in available documents) and relevant lessons of experience from other countries;
- relevant reforms agreed by the Cypriot authorities in the context of the MoU;
- the need to rebuild public confidence in Cyprus banks, both domestically and internationally;
- good international practice as well as ongoing EU and international policy work in this area; and
- legal and operational requirements (including consistency with EU rules) as well as the impact (costs-benefits and trade-offs) of any policy measures.

Approach and process

The Commission will consult widely with public and private sector entities as well as individuals in Cyprus and abroad in order to collect information and to develop a comprehensive picture of the Cypriot financial system. The Commission will also have access to all reports and documents that are necessary to its work. It will prepare an interim report laying out the main findings and potential recommendations being considered, which it will publish in order to solicit public feedback from stakeholders. After considering this feedback, the Commission will publish its final report.

The Commission will be supported by a Secretariat, housed within the CBC, which will collect information and make logistical arrangements.

Governance

In carrying out their tasks, Commission members will act with due care and diligence in a personal capacity as subject matter experts. The Chair of the Commission, in consultation with the other members, will design the work plan and maintain overall responsibility for the write-up of the report.

The Commission will report its findings and recommendations to the CBC Governor. Both the interim and final reports will be published on the CBC's website.

Timetable

The Commission will produce an interim report by June 2013, and a final report by the end of October 2013.

Nicosia, April 2013