

June 15, 2010

Basel Committee on Banking Supervision.

Consultative Document “Principles for enhancing corporate governance”.

Comments from Federcasse - Federazione Italiana delle banche cooperative, Casse Rurali ed Artigiane (Federcasse) - Italian Federation of credit cooperative banks.

Dear Sirs,

We would like to submit to your attention, Federcasse's comments regarding the publication of the Basel Consultative Document on corporate governance. Federcasse is the national Federation of 430 Banche di Credito Cooperativo, Casse Rurali e Artigiane or Credit Cooperative Banks (BCC-CR). Our banks are characterized by law by the scope of mutuality and by operating in a local environment.

Our Federation highly appreciate the efforts of the Basel Committee's Consultative Document which provides for governance practices for banking organizations in order to promote an efficient mechanism also able to prevent the risk against financial crisis.

In this respect, we also express our full appreciation and consent to the comments of the EACB Position Paper to the Basel Consultative Document. In deed, our comments are just an integration of the EACB Position Paper with respect to certain specific characters of the BCC-CR on the basis of our legislation and of the environment proper of the Italian legal system.

General Comments

As a general remark, in the Consultative Document, it is important to consider the peculiarities of cooperative banks, this aspect should be emphasized in the Document. In particular, different approaches to corporate governance shall be taken in relation with the size, complexity, structure, operation and risk profile of cooperative banks. It must be underlined that, cooperative banks, also because of their juridical nature and of their mutuality role (supplying bank services at favourable conditions to the members), are different from the other banks incorporated under the form of joint stock companies (listed or not). The governance model of cooperative banks, is based on the principle of one man-one vote and on a traditional management structure (Board of Directors, in some cases an executive committee, a board of auditors). Moreover, BCC-CR shares are not listed on an equity market, this should be taken on account when defining new rules on corporate governance.

It is therefore important for bank regulators recognise that this diversity of business and governance enhances the stability in banking. Corporate governance principles should therefore be sufficiently flexible to promote this diversity.

As concerns the case of a mutuality bank, it must be also clarified that the concept of independence of the directors may not be the total lack of relation between the directors and the bank but it could

be a criteria, set forth by the statutes, according to which the directors must avoid specific situations which may compromise their actions. On the other hand, the non executive role means not being part of the executive committee and not having operational mandates or operational duties.

Principle 1

The Board has overall responsibility for the bank, including approving and overseeing the implementation of the bank's strategic objectives, risk strategy, corporate governance and corporate values. The Board is also responsible for providing oversight of senior management.

As concerns the provisions of par. 29-32 (corporate values and code of conduct), we share the principle of the Basel Document that corporate values are an essential part of good sound governance practices. In this respect, we would like to emphasize that such values must be implemented by each single bank by way of a self regulation taking into account the diversities between the different banks environments. In the experience of the BCC-CR important parameters of reference have been represented by certain national association's initiatives which have been then adopted by the statutes of the banks or in their internal regulation reflecting essential values shared between the Italian BCC-CR.

In this direction, we outline that it is of fundamental importance that the Document recognizes the role of the self-regulation.

Principle 2

Board members should be and remain qualified, which entails that they should have adequate knowledge and experience relevant to each of the material financial activities the bank intends to pursue to enable effective governance and oversight of the bank.

Principle 3

The Board should define appropriate governance practices for its own work and have in place the means to ensure such practices are followed and periodically reviewed for improvement.

The principle of proportionality –already pointed out in the EACB Position Paper-must be carefully considered in implementing Principles 2 and 3 and the fact that Board members of the cooperative banks (at least in the Italian case) are always shareholders and thus, the aspect of the corporate basis is principal.

With respect to the professional qualification of the member of the board (par. 32-36), it must be pointed out that such qualification must be related to the nature of the bank, its dimension and its business model as well as to the effective environment in which the banks choose its new directors (such as in the case of the BCC-CR which are local banks by virtue of law). In this respect, it must be further noted that the BCC-CR have experienced the professional training of their directors on the basis of specific provisions promoted by the system of the BCC-CR and also on the basis of provisions of self- regulation adopted by several BCC-CR.

The level of knowledge or professionalism of Board members required by the Basel Committee document, shall also take into adequate consideration the mutual characteristic, the size, the absence of tradable equity securities issued by the bank, the local character of the banks, the above

mentioned fact that board members are chosen among the shareholders and the traditional banking business of the banks. In such perspective, the provisions of par. 37, regarding the composition of the Board, must be also considered with respect to the appointment of the no executive and independent members of the board in banks of small size. In deed, in such banks the model of governance is mainly collective and it is not frequent to use a structure such as the internal committee (par. 51 ss).

Principle 6

Banks should have an independent risk management function (including a chief risk officer or equivalent with sufficient authority, stature, independence, resources and access to the board).

Principle 7

Banks should identify, monitor and manage risks on an ongoing firm-wide and individual entity basis, and the sophistication of the bank's risk management systems and internal control infrastructures should keep pace with any changes to the bank's risk profile (including its growth), and to the external risk landscape.

Principle 8

Effective risk management requires robust internal communication within the bank about risk, both across the organisation and through reporting to the board and senior management.

Principle 9

The Board and senior management should effectively utilise work conducted by internal audit functions, external auditors and internal control functions.

Within risk management and internal controls area, proportionality has a principal consideration. We welcome the general provision set forth in paragraph 6 that the implementation of the principles should be proportionated to the size, complexity, structure, economic significance and risk profile of the bank. In particular, for smaller banks, due to the limited number of staff or because certain functions are carried out on a part-time basis, the achieving of full segregation and independence of the risk management function may be impractical, therefore it should be possible for smaller institutions to comply with the Committee Principles' by adopting an internal organization which is adequate to achieve the purpose of those principles, namely by ensuring that the board and senior management are explicitly and transparently responsible for its business and risk strategy, organization and internal control.

As concerns the implementation, also to small banks, of the principles and standard FSB on remuneration policies (par. 103), the principle of proportionality pointed out under lett D (par. 103) must be taken into adequate consideration. Such principle is important especially with respect to the remuneration policies since such provisions arise also from the need to provide the large size institutions with adequate remuneration policies, the lack of which contributed to the financial crisis

started in 2007. Such remuneration policies shall therefore be applied to the small size credit institutions considering the above mentioned principle of proportionality, opportunity and gradualism.

Principle 10

Also with respect to such principle, the concept of proportionality must be carefully considered, in the small size banks the institution of internal committee may be inappropriate.

Principle 14

Regarding par. 126 the disclosure of data regarding compensation policies of individuals must be proportionate to the size of the banks and must be compliant with the principles of the Directive 95/46/CE according to which the data must be adequate, relevant and not excessive in relation to the purposes for which are processed.