EBA BS 2014 236 Rev1

13 May 2014

EBA Staff

Location: EBA, Floor 5, 30 Old Broad Street, London

Joint Board of Supervisors / Banking Stakeholder Group Meeting – Minutes

Agenda item 1.: Welcome and Approval of the Agenda

1. The EBA Chairperson and Banking Stakeholder Group (BSG) Chairperson welcomed the Board of Supervisors (BoS) and BSG members. The agenda was approved without change.

Agenda item 2.: Report on the activities of the BSG

2. The BSG Chairperson reported to the BoS on the BSG's activities since the last Joint BoS/BSG Meeting held on 11 December 2013. The BSG Chairperson noted the BSG's recent work and submissions provided to the EBA in respect of its Technical Standards, Guidelines and Recommendations under development. It was recalled that the BSG had since October 2013 produced 11 responses to EBA Consultation Papers. Three further responses were under active preparation at the time of the meeting.

3. He highlighted that the BSG had four new Members. He noted that Andrew Procter, Marco Mazzucchelli, Dorothee Fuhrmann (all representing 'credit and investment institutions') and Ann Kay Blair (representing 'consumers') had decided to step down due to different reasons. Their replacements were Ernst Eichenseher, John Hollows, Erin Mansfield (all representing 'credit and investment institutions') and Mike Dailly (representing 'consumers'). The BSG Chairperson thanked the EBA and the Board of Supervisors for the swift replacement process.

4. Further, the BSG Chairperson reminded the BoS that the BSG had established three Standing Technical Working Groups (STWGs), which reflect the EBA's work programme and focus of work ahead. In addition, the BSG has the option of establishing Ad Hoc Working Groups. Most recently, the BSG has established an Ad Hoc Working Group on Proportionality.

5. The BSG also informed that they were considering seeking further cooperation with the other ESA Stakeholder Groups and that a meeting between the ESAs' Stakeholder Group Chairs and Vice-Chairs was envisaged at the occasion of the ESA Joint Consumer Protection Day.

Agenda item 3.: EU-wide Stress Test 2014

6. The EBA Director of Oversight introduced the 2014 EU-wide Stress Test, which was designed to assess banks' resilience to hypothetical external shocks, it will identify vulnerabilities in the EU banking sector and will provide a high level of transparency of EU banks' exposures. The objective of the EU-wide stress tests is to help supervisors in the EU to assess the resilience of financial institutions to adverse market developments. The EBA will be responsible for coordinating the exercise in cooperation with the ECB and ensuring effective cooperation between home and host supervisors. The EBA will act as a data hub for the extensive transparency of the results of the common exercise.

7. It was highlighted that EU banks' capital position is maintaining an upward trend, noted in the fourth quarter of 2013 and also in the first months of 2014.

8. The EBA staff further presented an overview of the common methodology and underlying assumptions covering a wide range of risks including: credit and market risks, exposures towards securitisation, sovereign and funding risks. The EBA’s common methodology will be used by all EU supervisory authorities to ensure that the main EU banks are all assessed against common assumptions, definitions and approaches. Differences between the Stress Test exercises in 2011 and 2014 were highlighted. The EBA staff noted the link of the Stress Test and the on-going Asset Quality Reviews undertaken by Competent Authorities.

9. It was noted that in order to ensure consistency, the common methodology is restrictive and rests on a number of key constraints. These include a static balance sheet assumption, which precludes any defensive actions by banks, prescribed approaches to market risk and securitisation, and a series of caps and floors on net interest income, risk weighted assets (RWAs) and net trading income. Further, the methodology provided clarity, including the roles of the EBA, the ESRB, the ECB and National Competent Authorities.

10. The BSG Vice-Chairperson acted as one of the discussants to the presentation by EBA Staff. The other BSG discussant represented ‘credit and investment institutions’.

11. The BSG Vice-Chairperson discussed the experience of the Stress Test undertaken in 2011. He questioned whether the exercise indeed failed to spot vulnerabilities of some banks, as sometimes claimed, and noted that it seemed to depend to a large extent on the type of measure that was chosen. For example, when looking at the change in funding cost under the stressed scenario, particular banks were already noted in 2011.

12. He further questioned the notion that investors were not interested in the Stress Test’s results. It was observed that around 60% of the price reaction upon the 2011 Stress Test results could be explained by four indicators (‘current tier 1 capital ratio’, ‘change in total coverage ratio’, ‘change in coverage ratio’ and ‘change in funding costs under stress’) that were part of the Stress Test’s disclosed results.

13. Looking forward to the 2014 Stress Test, the BSG Vice-Chairperson noted whether the level of granularity of the data disclosed would be consistent with that of the 2011 EU-wide Stress Test. He would welcome if the Stress Test would contribute to enhance the comparability of EU banks and increase transparency. However, he wondered whether the results should, indeed, be communicated as a pass/fail threshold and suggested considering alternative metrics (e.g. scores for capital, liquidity, profitability and data quality).

14. The other BSG discussant noted in his discussion that the combination of the ESRB scenarios with the EBA assumptions may result in an overly conservative exercise. Thus, he would have preferred a dynamic balance sheet assumption. Further, he was concerned about the risk of double counting of stress assumptions between the AQR and the Stress Test. Coordination with national competent authorities should remove double counting. The communication of results should, in his view, portray a clear image of the purpose and interpretation of the exercise by including the prescriptiveness of the exercise and the assumptions that add conservatism to the results. In addition, the adverse scenario should be presented as a very unlikely situation.

15. The EBA Chairperson recalled that in the past the EBA had considered to move away from the pass/fail approach but eventually did not go down that path. He underlined that the shocks assumed in the Stress Test needed to impact banks in all Member States sufficiently.

16. Some BSG Members noted their experience and practical difficulties regarding the Stress Test, including as representatives of ‘credit and investment institutions’, and highlighted whether it could be considered to grant more flexibility in individual cases.

17. The BSG Chairperson enquired whether differences in business models would be considered by the 2014 Stress Test. In response, the EBA staff explained that Competent Authorities would be required to assess how to move from the static balance sheet to reflect individual banks’ business models.

18. Further, BSG Members queried how conduct risk could be considered by the Stress Test, as this was considered of large importance given recent experience in some Member States. The EBA staff explained that conduct risk has been picked up in the EBA’s regular Risk Assessment Reports and that the EBA faced difficulties in incorporating conduct risk in an EU-wide framework but would take away this strong message from the BSG that conduct risks should be further considered in the Stress Test and discuss with experts what steps could be taken to address this request.

19. The EBA Chairperson noted the efforts of banks in preparing for the Stress Test exercise. BSG Members representing ‘credit and investment institutions’ noted that they were trying to collect macro data on deleveraging, whilst noting the limited availability of public data.

Agenda item 4.: Conduct Risk Indicators

20. A BSG Member representing 'consumers' identified in his presentation areas of potential customer detriment and indicators which may suggest a potential source of customer detriment. He noted that such indicators had initially been prepared by the consumer protection task force of the Actuarial Association of Europe to help EIOPA develop relevant conduct risks indicators, but considered these to also be applicable to pensions and banking products to a large extent.

21. He noted the main risks for consumers that in his view exist when purchasing a financial product, i.e. that products are not developed and marketed appropriately; that consumers are not provided with clear information before, during and after the point of sale; that consumers are sold inappropriate products; that consumers receive poor quality advice; that consumers' complaints and disputes are not dealt with in a fair manner; that the privacy of information is not correctly protected; or, that reasonable consumer expectations are not met.

22. He suggested as potential indicators for consumer detriment:

- Profits
- Complaints
- Lapses/Surrenders
- Claims Ratios
- Cost Cutting
- Commission levels

23. The EBA Head of Consumer Protection and Financial Innovation acted as discussant to the presentation by the BSG Member. He noted that many issues mentioned in the presentation cut across the insurance and banking sectors, so it was very useful to discuss the work done for EIOPA here at the EBA. He suggested to more clearly distinguish between consumer detriment on the one hand and causal drivers for such detriment on the other, because in order to mitigate a risk, regulators need to know and address its causes (e.g. poor quality advice would rather qualify as a driver). Other risks that could be mentioned in addition could be excessive pricing or unclear terms and conditions. Similarly, remuneration policies could be a further driver for consumer detriment.

24. The EBA Head of Consumer Protection and Financial Innovation noted that risks towards consumers could be suitably separated into different, mutually exclusive categories. One such categorisation would be the following:

    - Pre-sale (e.g. misleading advertisement)
    - During the sales process (e.g. mis-selling of products)
    - Post-sale (e.g. arrears, repossessions)

25. BSG Members mentioned the importance of indicators throughout a product's life cycle, as potential risks may only materialise over time. Furthermore, conduct risk would often be managed as reputational risk by banks.

26. BoS Members noted the potential usefulness of conduct risk indicators but questioned how supervisory measures would be based upon these. For example, the rapid growth of a particular product may not automatically mean that abuse takes place. Further, such indicators may be useful in picking up trends in financial markets.

27. The BSG Chairperson viewed that supervisors could intervene by the use of incentive structures, e.g. by requiring additional capital and/or regarding the rules on sales remuneration.

28. EBA staff explained that future discussions at the Standing Committee on Consumer Protection and Financial Innovation (SCConFin) will also consider indicators for consumer detriment.

Agenda item 5.: High Quality Securitisation

29. The Bank of England's Head of Markets, Sectors & Interlinkages Division, Financial Stability provided a presentation where she explained that better securitisation could support a revival in credit growth and reduce reliance on the banking system to provide credit to the European economy as a funding tool to support real economy lending by banks and non-banks.

30. She noted that currently securitisation markets in Europe were in a difficult state due to an attached post-crisis stigma, the absence of information, market liquidity and regulatory requirements as well as uncertainty (for both issuers and investors).

31. She highlighted the need to incentivise characteristics which improve the chance of predictable performance from asset-backed securities, including under stress. This could occur by the use of simple / 'plain vanilla' assets, more structural robustness, increased transparency and the absence of refinancing risk. However, such securities would still not be risk free.

32. It was raised whether criteria for future 'conforming securitisation' would be self-evident or whether there was a need for a 'label'. Further, there may be other measures needed to revitalise the market.

33. A BSG Member representing 'credit and investment institutions' acted as one of the discussants to the presentation by the Bank of England's representative. The other discussant was a Member of the BoS.

34. The BSG Member discussant contrasted the development of securitisation in the United States and the EU, noting that the issues were in the crisis less pronounced in the EU compared with the US, while still existent. He noted that the European Commission's aim is to restore the balance between bank and non-bank financing of the real economy (e.g. for SMEs).

35. He highlighted the importance of the regulatory treatment of securitisation, both in the CRD and other regulatory frameworks, such as Solvency II. To this end, he observed that EIOPA had already provided advice to the European Commission supporting a different regulatory treatment of certain securitisations in the Solvency II framework.

36. Generally, he would prefer keeping existing retention rates required for securitised assets. Transparency would need to continue being a strong feature of securitisations as well as reduced reliance on external ratings. He would advocate revising the use of securitised assets for central bank eligibility. In his view, the 15% Basel III floor should be revised. With regard to liquidity, the EBA could reconsider the treatment of RMBS in its delegated acts.

37. The importance of the underlying portfolio quality was noted. This could generally be limited to specific asset classes, such as SMEs, residential loans, consumer loans and auto finance.

38. The BoS discussant recalled some of the issues with securities products that had become apparent in the past. Thus, the regulatory responses were swift and possibly radical, as such it should now be checked whether the regulatory responses were, indeed, commensurate. He suggested that the introduction of a differently regulated asset class of securitisation could, however, create a two-tier market, as an unintended consequence. Hence, the definition of such a class of assets would be crucial (e.g. in terms of risk-weights). He further advocated that the EU could lead the development globally, instead of awaiting any responses coming from the Basel Committee.

39. BSG Members noted that investors could, as a response to the creation of 'High Quality Securitisations', interpret this as a regulatory seal of approval, which should not be the case.

40. BoS Members recalled other instruments that may already have similar characteristics (e.g. certain types of covered bonds), even if these do not represent true sales. Thus, the promotion of these instruments may also be considered.

41. Further, a diversified set of funding structures should be ensured and no one set of structure should be over-relied upon. The Bank of England also mentioned its forthcoming joint discussion paper with the ECB on the issue, as well as work underway in a joint BCBS/IOSCO working group, as well as work under development at the European Commission.

42. The BSG Chairperson expressed that the BSG would wish to consider contributing to the EBA's work underway.

Agenda item 6.: AoB

43. The EBA Chairperson thanked BoS and BSG for their active participation. There was no other business.

Participants at the Joint Board of Supervisors / Banking Stakeholder Group Meeting

London, 13 May 2014

Chairpersons: Andrea Enria (for the BoS), David Llewellyn (for the BSG)

Country	Voting member or Alternate	Representative NCB
Austria		Ingeborg Stuhlbacher
Belgium	Jo Swyngedouw	
Bulgaria		
Croatia		
Cyprus		
Czech Republic	David Rozumek	
Denmark	Ulrik Nødgaard	Brian Liltoft Andreasen
Estonia	Andres Kurgpold	
Finland		
France	Edouard Fernandez-Bollo	
Germany		Erich Loeper
Greece	Vassiliki Zakka	
Hungary		
Ireland	Mary Burke	
Italy	Luigi Federico Signorini	
Latvia		
Lithuania	Valvonis Vytautas	
Luxembourg	Claude Simon	Norbert Goffinet
Malta	Raymond Vella	
Netherlands	Jan Sijbrand	
Poland	Andrzej Reich	Maciej Brzozowski
Portugal	Pedro Duarte Neves	
Romania	Nicolae Cinteza	
Slovakia	Vladimir Dvoracek	
Slovenia		
Spain	Fernando Vargas	
Sweden		
UK		Sarah Breeden

Country	Observers	
Iceland		
Liechtenstein	Rolf Brüggemann	
Norway		Sindre Weme

BSG Member	Representing
David T. Llewellyn (Chairperson)	Top-ranking academics
Andrea Resti (Vice-Chairperson)	Top-ranking academics
Alf Alviniussen	Users of banking services

Jean Berthon	Consumers
Michel Bilger	Credit and investment institutions
Javier Contreras	Consumers
Mike Dailly	Consumers
Nikolaos Daskalakis	SMEs
Santiago Fernández De Lis	Credit and investment institutions
Chris De Noose	Credit and investment institutions
Ernst Eichenseher	Credit and investment institutions
Eilis Ferran	Top-ranking academics
Jose Antonio Gonzalo-Angulo	Top-ranking academics
Sandra Hafner	Credit and investment institutions
Zdenek Hustak	Top-ranking academics
Alin Iacob	Users of banking services
Robin Jarvis	Users of banking services
Bostjan Krisper	Consumers
Dominic Lindley	Users of banking services
Ute Meyenberg	Employees
Jesper Bo Nielsen	Employees
Robert Priester	Credit and investment institutions
Magdolna Szőke	Credit and investment institutions

Institutions	**Representatives**
European Commission	
European Central Bank	
ESRB	
EIOPA	Manuela Zweimüller
ESMA	

Others

Executive Director	Adam Farkas
Director of Oversight	Piers Haben

EBA Staff	Stefan Andresen, Santiago Baron Escamez, Dirk Haubrich, Corinne Kaufman, Caroline Liesegang, Christian Moor, Lars Overby, Massimiliano Rimarchi