



EBA BSG 2019 021

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Banking Stakeholder Group

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11 June 2019

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Location: Paris

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EBA-Regular Use

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# Banking Stakeholder Group meeting – Final Minutes

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## Agenda item 1: Welcome and adoption of the agenda and minutes

1. The EBA Chairperson and the BSG Chair welcomed the participants in the EBA's new premises in Paris.
2. The BSG Chair welcomed two new members: Monica Calu (Law consumer expert) in the category of "consumers" and Sébastien de Brouwer (Executive Director - European Banking Federation) in the category of "credit and financial institutions".
3. The BSG approved the agenda and the Minutes.

### Conclusion

4. The BSG approved the agenda of the meeting and the Minutes of the previous meeting.

## Agenda item 2: BSG update on the latest developments

5. The BSG Chair provided an update on the organisation of the BSG work and presented the workplan. She mentioned that the BSG set up the following five working groups: 1) Resolution and Recovery, Capital liquidity, Risk; 2) Supervision, Governance, Accounting, Provisioning and Disclosure, Proportionality; 3) Consumer protection; 4) Payment, Fintech, Regtech, and 6) Sustainable finance.
  6. Some BSG Members raised procedural and organisational suggestions. They suggested regular discussions with the EBA staff involved in the coordination of the BSG in order to better understand EBA priorities. They also mentioned that for their preparation for the meeting, the EBA should ideally circulate documents 2 – 3 weeks in advance of the meeting. Finally, they proposed to have monthly calls between the BSG Chair, Vice Chair and Chairs of working groups to monitor progress on various consultation papers and other working documents. In
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cases where no official consultation was open, they would discuss whether to start own initiative work via workshops that would most likely to be organised in Paris.

7. With regard to horizontal studies, the BSG identified three topics beyond the working groups which could then be up for further discussion/work and maybe issuance of own-initiative paper (1 page): redesign of stress tests; bank business models and use of SREP (possible to broaden the scope to include some Fintech), and bank resolution and financial stability.

## Conclusion

8. The BSG agreed to further focus on business models, use the EBA staff paper on business models as starting point and draft an answer to it, and to link this topic also with some resolution aspects.

## Agenda item 3: EBA update on general developments

9. The Chairperson updated on the most recent developments at the EBA. He stressed that the EBA had successfully relocated from London to Paris and had been fully operational since 3 June in Paris.
10. He summarised the Breach of Union Law (BUL) investigation regarding Danske Bank's supervision related to ML risk. He mentioned that in September last year the Commission (DG JUST) and some MEPs asked the EBA to investigate whether the Danish and Estonian supervisors had carried out effective supervision in relation to ML risks of the Danske Bank group in line with requirements set out by EU law. He briefly listed the actions taken by the EBA and clarified that the BoS conclusively rejected the findings of breaches of union law and the draft BUL recommendations. He concluded by pointing out that the EBA would also be reviewing the BUL process in light of the ESAs' review, which made some changes to the governance process, such as including a process for appointing the Panel, role of our anti-money laundering committee/ESMA/EIOPA when AML/CFT BUL investigations, voting in written procedure by the BoS, new independence requirements on conflicts of interest the scope of which would need to be discussed by the BoS. In this regard, the Chairperson also mentioned that under the ESAs' review, the EBA should get more experts to work on AML.
11. The Chairperson continued by providing an update on the state of play of the Call of Advice (CfA) on the implementation of Basel III. He clarified that the EBA was finalising its impact assessment in response to the European Commission's call for advice it received on 4 May 2018. The findings of the assessment in the areas of credit risk, operational risk, output floor and securities financing transactions should be published in a report by the end of July 2019. The findings in the area of market risk and CVA would be published at a later stage, owing to the later completion of these parts of the Basel III framework. The assessment was based on a comprehensive data collection and supplemented with evidence provided by the banking industry in the form of a qualitative questionnaire. Before the publication of its advice to the European Commission, the EBA would present the quantitative findings and its main policy

recommendations at a public hearing, which was planned to be held at the EBA premises in Paris on 2 July 2019, from 15:00 to 18:00 CET. Further details on the public hearing have been disclosed on the EBA's website.

12. On the topic of Brexit, the Chairperson stressed that the EBA continued to monitor contingency plans by institutions and readiness in EU27 national authorities. The EBA was also going to launch several surveys on institutions' preparedness, in particular on the authorisations and relocation plans as well as contingency planning over the summer.
13. The Chairperson continued by explaining that the EBA's Opinion on strong customer authentication under PSD2 should be discussed at the next BoS meeting. As a background, he reminded the BSG that under the revised Payment Services Directive (PSD2), the EBA was mandated to develop regulatory technical standards setting out the details on strong customer authentication and common and secure communication (RTS on SCA and CSC), including its exemptions, and to regulate the access to customer payment account data held in account servicing payment service providers. The RTS were developed in 2015, adopted as Commission Delegated Regulation (EU) 2018/389 on 27 November 2017, published in the Official Journal on 13 March 2018 and would legally apply from 14 September 2019. Since the publication of the RTS in the Official Journal, the EBA has published relevant responses to industry queries, via an Opinion in June 2018 and also via a number of Q&As. However, the industry has continued to request clarifications with regard to whether specific existing authentication approaches they use in particular national payments markets were compliant with the definition of SCA under PSD2 and with the provisions set out in the RTS. In addition, industry participants in a number EU Member States expressed concerns on the preparedness of the industry, in particular in the area of e-commerce where card payments are used. The draft opinion addresses both, the requests for clarification and concerns on preparedness from the industry, with a view to provide some certainty in a consistent way across the EU and send a strong signal to the market that they need to prepare with urgency. Complementary to the opinion, but only on the condition that the opinion was published, clear timelines for migration plans would be designed to ensure consistency across MS.
14. Finally, the Chairperson mentioned that the three ESAs have launched a public consultation on technical standards on the reporting of intra-group transactions and risk concentration for Financial Conglomerates with a deadline for responses on 15 August 2019. The draft technical standards aimed at offering a single framework of requirements for the reporting of intra-group transactions and risk concentration by financial conglomerates subject to supplementary supervision in the European Union. He concluded by welcoming the BSG to provide their input on this public consultation.
15. With regard to the Opinion on strong customer authentication under PSD2, one BSG Member stressed that the EBA did not have any legal power to change the deadline and therefore, it was unlike that the Opinion would bring many changes.

16. On the BUL case, one BSG Member asked if there were any new details and whether the EBA could explain in detail why the BoS did not approve the recommendation.
17. One BSG Member asked if there was a study to be done by the EBA on the reduction of costs of regulation and when the EBA, and potentially the BSG, would start working on this study.
18. The BSG Chair asked for some clarification on the AML work to be done by the EBA and potentially, by the BSG.
19. In his response, the Chairperson clarified that in the work resulting from the CfA, the EBA was considering the Basel III text and was aiming to keep the standards aligned. On the cost reduction study, the Chairperson confirmed that the BoS would discuss it at its next meeting. Finally, with regard to the AML, the Chairperson clarified that the EBA was given a new mandate on this issue as a part of the ESAs' review and that the EBA would further analyse its upcoming new tasks. He agreed to provide more information at the next BSG meeting.
20. The EBA Executive Director informed the BSG that the EBA would publish the Minutes of the BoS meeting during which the topic of breach of Union law was discussed. The Minutes would provide further details. He also mentioned that the EBA has received several requests to access the information on this and that the EBA was currently considering them. In this regard, the BSG Chair asked if the BSG could request information as well. The EBA Head of Unit Legal Services confirmed that the BSG could request the access but that the EBA was analysing whether and if, what details of the case, it was going to share and recommended that the BSG waits for this analysis.
21. One Member mentioned that he would expect that in situations like the BUL case, the views of the BoS would be made public.
22. One Member expressed his appreciation for the work done on the EBA Annual Report, which was a very informative publication.

### **Conclusion**

23. The BSG agreed that at the next BSG meeting, the EBA staff would provide an update on its AML work.

### **Agenda item 4: Update on risks and vulnerabilities in the EU**

24. The Head of Risk Analysis and Stress test Unit (RAST) presented the EBA's assessment of risks and vulnerabilities in the EU banking system from the most recent data available. On profitability, he mentioned that based on preliminary market analyst coverage EU/EEA banks' profits were down 6% YoY in Q1 2019, net interest income (NII) was broadly flat, with a negative margin effect, which was more or less compensated by volume growth, fee income was "particularly weak" (-6% YoY) and expenses were down by 1% YoY.

25. He also mentioned that based on supervisory reporting data for 2018, gross interest income (EUR 705bn) was the most important contributor to banks' profitability - EU / EEA average interest expense (EUR 346bn) were about 50% of the total interest income, at the same time being widely dispersed across countries (between 10%-90%). Staff expenses remained the biggest expense for the banks, together with other admin expenses. Further analysis covered indications for which business models and which segments (retail vs. large corporate lending) tend to be more profitable as well as the link between IT investments and banks' RoE. He concluded by listing some possible reasons for low profitability as well as mentioning that, based on the EBA's spring version of the Risk Assessment Questionnaire (RAQ, preliminary results), the share of banks that were now targeting NII to improve profitability has strongly increased. The RAQ results also show that further automatisisation and digitisation remained key areas for reducing operating expenses, but have slightly declined in importance.
26. BSG Members suggested looking into the banking sector outside the EU (e.g. US) and into the evolution of EU banks' business models to identify factors that could explain the differences in profitability. BSG Members generally agreed on the positive correlation between profitability and IT, and noted that IT investments would be favoured, and that this finding was consistent with the CRR2 provision to allow banks not to fully deduct software investment from capital. One Member asked if digital banks would be included in the sample that the EBA would be analysing. Members also noted the potential negative effects of banking concentration on consumers. The BSG Chair considered profitability analysis should be based on risk-adjusted metrics.
27. Members debated the EBA statement that low profitability in large corporate lending was not an issue, as such corporates were expected to turn to capital market finance, as part of the CMU project. While one Member considered many large corporates can borrow at a lower interest rates than the interest rates banks charge them, other pointed at the tailor-made services offered by banks to corporates, such as hedging, trade finance, working capital, that the bond market cannot offer. Other Member suggested to assess the profitability of large corporate clients taking also into consideration the correlation of large corporate lending with net fee and commission income.
28. One Member mentioned the difficulties of banks in less developed capital market to place their MREL issuances while another pointed at the likely negative market perception due to the mechanical increase in disclosed NPL ratio, by excluding central bank deposits from the base of the calculation, as foreseen in the current ITS on supervisory reporting under consultation.
29. In his responses, the Head of Unit RAST acknowledged that while initial costs of digitalisation were high, it seemed that there was a positive relation with profitability and agreed to further work on the issue of low profitability.

## Agenda item 5: EBA's update on the latest developments of the ESAs' review

30. An EBA Policy Expert updated the BSG on the conclusion of the Trilogue with regard to the ESAs review. She presented the governance changes in relation to the BoS and MB and the new tasks given to the EBA and amendments to the BSG matters, such as the composition, role of the Chair, or dissenting opinions. She also briefly mentioned the new tasks of the EBA, namely the enhanced role of EBA in AML, consumer protection, equivalence, and ESG factors.
31. The BSG Members requested further details on the changes related to the BSG, in particular how the BoS can oppose any work done by the EBA. In this regard, one Member mentioned that there was no clarity on the way forward when an EBA opinion was published as well as there was no role envisaged for the BSG in contributing to the drafting of opinions.
32. Some BSG Members were of the view that the outcome of the ESAs' review was rather disappointing and asked how the BSG could contribute to the existing, or future legislative framework. The Executive Director explained that the text of the ESAs' review was finalised now but that the BSG could analyse it and contribute to future discussions on the next ESAs' review.
33. The BSG was interested in the new powers of the EBA in consumer protection and AML and asked if there would be a new AML agency as well as consumer protection agency. The EBA Policy Expert clarified that these were political decisions to be further considered.
34. One BSG Member questioned the process of drafting guidelines, in particular the involvement of the BSG in this process.

## Conclusion

35. The BSG agreed to analyse the new legislation, identify the issues and if necessary, provide an input to the next ESAs' review.

## Agenda item 6: EBA update on regulatory deliverables

### A) Draft CP on loan origination Guidelines

36. The EBA Director of Banking Market, Innovation and Consumers (BMIC) informed the BSG about the EBA's work on draft Guidelines on loan origination and monitoring. He briefly introduced the draft guidelines explaining that they build on the requirements in CRR/CRD, MCD and CCD and bring together supervisory experience from the recent financial crisis, and new policy developments. He also explained the application of the new requirements and as well next steps. He stressed that the guidelines aimed to increase the resilience of the EU banking system by introducing more prudent lending practices and thus reducing the potential inflow of new NPLs. He concluded by pointing out that the guidelines were important because they bring together prudential and consumer protection frameworks in matters such as credit granting and borrower's creditworthiness assessment.

37. Some BSG Members questioned the purpose of these guidelines and the level of details. One BSG Member asked whether there was a clear differentiation between credit risk and creditworthiness that is important from the consumer' perspective. Other BSG Members queried the proposed approach to the used of statistical models for the valuation of collateral.
38. In his reply, the Director of BMIC clarified that the guidelines are addressing shortcomings in the banks' lending practices highlighted by the crisis though the increased levels of NPLs, explained that the approach to using statistical models in valuation is based on the CRR requirements and clarified that the consumer protection interests are equally important in the guidelines noting that the draft guidelines advocated for the risk-based approach to pricing but did not prescribe specific practices. He also encouraged BSG to provide opinion to the draft guidelines and mentioned that during the consultation period, the EBA also intended to conduct a 'roadshow' and present the guidelines to the main European trade associations that cover financial institutions providing loans that are covered by these guidelines.

## B) FRTB roadmap

39. The EBA Policy Expert informed the BSG that the item would be also discussed at the next BoS meeting. He mentioned that the EBA would publish for consultation a second package of CRR2 deliverables after the publication in May of four RTS on the new standardised approach for counterparty credit risk. This second package related to market risk deliverables and is part of Phase 1 FRTB deliverables with 9-month deadlines under CRR2. It consisted of a report and three RTSs. The report was the 'EBA Roadmap on the new market and counterparty credit risk approaches' and represented the follow-up to the Discussion Paper that the EBA published in December 2017. It included a summary of the feedback received last year on the eight main implementation issues included in the DP. It also included an updated roadmap based on the deadlines included in the latest version of the CRR, which defines four phases for the delivery of CRR2 mandates. The CRR2 included a total of five mandates on counterparty credit risk and 30 mandates on market risk, with challenging deadlines for most of them. The three RTSs that were to be submitted to the BoS together with the roadmap, were Consultation Papers on draft technical standards specifying key areas of the Internal Models Approach under the FRTB. Although the reporting requirement for the IMA under the new market risk rules was expected to start in a few years only, the 9-month deadline given for those three RTS signalled the key importance of providing both the banks in the process of developing extremely sophisticated models and the competent authorities that would have to review them, with the legal certainty needed for them to prepare and be ready for the moment where the FRTB will effectively kick in.
40. One BSG Member stressed the challenging timeline for the roadmap.

## C) IFRS9 benchmarking

41. EBA Policy Experts updated the BSG on the current state of play of the EBA IFRS 9 benchmarking exercise and immediate next steps. A reference was made to the EBA report

published in December 2018 that announced future steps, such as a continuous monitoring of IFRS 9 implementation issues, the monitoring of the impact on regulatory own funds and possible benchmarking exercise on modelling aspects. They also mentioned that the EBA was aiming at reviewing the ITS on benchmarking to include a few additional data points following the intermediate exercise based on excel templates.

42. One BSG Member stressed that the roundtable organised by the EBA was very useful and well prepared. The fact that the BSG was invited and could contribute to the discussion was welcomed, in particular due to the fact that it allowed the involvement of other experts from their authorities.
43. One BSG Member asked if the EBA knew how many banks have not implemented IFRS. The EBA Policy Experts clarified that the EBA collected some data in the past but that these would have to be updated and it is not necessarily relevant for the specific purpose of this exercise as all the banks in the sample apply IFRS.
44. With regard to the sample of banks included in the EBA exercise, the BSG Chair asked for the criteria and whether the sample could be made public. The EBA Policy Experts explained that the sample was based on specific criteria and did not change when compared to the previous EBA impact assessments. It was also clarified that the list of banks included in the sample was not public.
45. Finally, one BSG Member asked whether the EBA focus was on accounting or prudential aspects. The EBA Policy Experts clarified that the perspective was always prudential but taking into account that the accounting figures were the basis for the prudential figures computation. They mentioned that the templates could be shared with BSG upon expression of interest.

## Agenda item 7: Consumer and depositor protection

46. The EBA Head of Unit Conduct, Payments and Consumers (COPAC) briefly summarised the EBA's mandate in the area of consumer protection, the EBA' output in this area as well as main deliverables planned in 2019. He focused his presentation on the EBA report on supervisory convergence in consumer protection regarding the Product Oversight and Governance (POG) Guidelines. He firstly informed the BSG about the actual POG Guidelines after which he presented the main findings of the report. These findings were related to the scope of the Guidelines, target market, testing, monitoring, and distribution.
47. One Member asked whether the EBA also considered the actual business models of products from a perspective of profitability. Another Member asked if the EBA was satisfied the findings in the report and what would be the next steps. One Member questioned the scope of the analysed sample. Finally, one Member asked FinTech/RegTech were included in the scope of the Guidelines and other Member asked if the ESAs would together review their principles on POG.

48. In response, the Head of Unit COPAC said that the EBA would further look at the business models. He acknowledged that the sample was limited and, therefore, the EBA was not yet in a position to convey any wide-ranging views, including whether the EBA was satisfied with the review. He also mentioned that, should there be any follow-up to this report, the EBA would like to include not only credit institutions in its sample but also other financial institutions. Furthermore, if in a follow-up step the EBA were to revise the Guidelines, the EBA might decide to clarify some terms used in the Guidelines as they did not seem to be understood by the market in the same way, such as what was considered being a “new product”. He confirmed that based on the ESAs’ review, the EBA would consider also retail conduct issues not covered by these Guidelines, such as AML issues. Finally, he explained that the ESAs would not jointly review their principles due to different legal bases on which the three ESAs developed their respective POG requirements.
49. Regarding depositor protection, the EBA Policy Expert from the COPAC Unit informed the BSG about the EBA’s work listing the mandates that the EBA had to deliver in 2019 and 2020 under the DGSD and the request for technical advice that the European Commission requested sent to the EBA setting out greater detail in respect of this mandate. The EBA would fulfil the mandate through the submission in 2019 of three separate EBA Opinions, with the first one earmarked for the summer.
50. One Member asked if the EBA’s opinion would cover failure prevention measures. Two Members asked if the institutional protection schemes (IPS) model would be covered in the opinions. And, finally, another Members asked if the opinions would address the extent to which DGS available financial means can be used in a resolution.
51. By way of response, the policy expert explained that the EBA opinion on DGS funding and uses of DGS funds included a chapter on failure prevention measures, including a reference to the recent ECJ ruling in relation to Banca Tercas and the implications of the ruling. He also mentioned that IPSs that were also recognised as DGSs, and so subject to the DGSD, would be covered in the analysis alongside other DGSs, but that neither the mandate in the DGSD nor the Commission’s call for technical advice requested the EBA to assess the IPS model in isolation. Finally, the policy expert clarified that the extent to which the DGS can contribute to a resolution was generally outlined in the BRRD, and so outside the scope of the EBA’s work on the implementation of the DGSD.

## Agenda item 8: Discussion on topics presented by BSG members

### A) Presentation on sustainable finance

52. The Chairman of the "Sustainable Finance" Committee presented the work and discussions on sustainable finance and sustainable growth initiated by both the European Commission and the TCFD set up by the FSB. In addition, he reminded that the European Parliament, in accordance with the banking package, has given mandates to EBA to deliver technical standards on the disclosure of information related to ESG Risks. This perspective made it

possible to target BSG's actions and contributions in the context of its missions, particularly on the difficult subject of ESG risk. The detailed presentation showed that the first obstacle to be overcome was access to data. Without reliable data that referred to a common taxonomy, it was difficult to identify, measure and monitor ESG risk. But, as the Chairman of the Sustainable Finance committee stressed, any disclosure requirements should take into account proportionality aspects. Moreover, he indicated that the path to a low carbon economy shall be not a "Big Bang" but a "phase in" approach. In that respect, the focus shall be also on transition activities: not just green activities but enable the greening of polluting activities. He expresses also the following messages:

- Banks were engaged in sustainable finance and committed to the Paris Agreement.
  - Key "decentralised" activities – such as mortgages for energy efficiency, installation of solar panels, biomass power or households saving products linked to sustainability – can only be achieved via the mobilisation of and a favourable regime for local and regional banks.
  - Banks were ready to take their share of responsibility for the energy transition, they stressed that this energy transition was a societal issue involving a multitude of players.
  - The difficulties in achieving the objectives of the Climate Conference in Paris 2015 (Paris Agreement, COP21) must be addressed within a broader framework than just the banking sector.
  - Supervisory expectations should remain realistic in light of limitation to data access and methodology.
  - International cooperation and Coordination was required.
53. He also invited the EBA staff to share information with members of the Committee and to work closely in order to find the most appropriate approach to tackle the ESG Risk issue.
54. The presentation was concluded by key messages from another BSG representative, who stressed the importance of a workable and dynamic taxonomy and referred to his published paper on the relevance of taxonomy and transition. He also pointed that financing only the green economy was not the only way how to deal with sustainable finance.

## Agenda item 9: AOB

55. One BSG Member proposed to have more BSG meetings.
56. With regard to the IRB internal models, relevant BSG Members would contact the EBA and this topic might be discussed at an upcoming BSG meeting.

## Next meeting

57. The next BSG meeting will take place on 14 October.

## Participants

### BSG :

Gerda	Holzinger-Burgstaller	Erste Group Bank AG	Austria
Hervé	Guider	European Association of Co-	Belgium
Véronique	Ormezzano	operative Banks	France
Ernst	Eichenseher	BNP Paribas	Germany
Sabine	Masuch	UniCredit Group	Germany
Sergio	Lugaresi	Association of Private	Italy
Lara	De Mesa Garate	Bausparkassen	Spain
Jean	Naslin	Italian banking association	Spain
Thaer	Sabri	Banco Santander	UK
Anne	Fily	Caixa Bank	Belgium
Martin	Schmalzried	Electronic Money Association	Belgium
Dermott	Jewell	Independant consultant	Ireland
Tomas	Kybartas	COFACE-Families Europe	Lithuania
Vinay	Pranjivan	Consumers Association of	Portugal
Victor	Cremades Erades	Ireland	Spain
Lyubomir	Karimansky	Alliance of Lithuanian	Bulgaria
Giedrius	Steponkus	consumer organisation	Lithuania
Leonhard	Regneri	Portuguese Consumer	Germany
Andrea	Sitá	Association (DECO)	Italy
Edgar	Loew	Association of Consumers and	Germany
Angela	Baglioni	User of banks, saving banks,	Italy
Luigi	Guiso	financial products and	Italy
André	Prum	insurance (ADICAE)	Luxembourg
Monika	Marcinkowska	International Banking Institute	Poland
Monica	Calu	Lithuanian Investors	Romania
Marko	Košak	association	Slovenia
Angel	Berges	INPUT Consulting	Spain
Soren	Holm	Fondo Pensione	Denmark
Sebastien	de Brouwer	complementare	Belgium
Rym	Ayadi	Frankfurt School of Finance	UK
		Universita Cattolica del Sacro	
		Cuore Largo Gemelli	
		Einaudi Institute for Economics	
		and Finance and University of	
		Rome Tor Vergata	
		University of Luxembourg	
		University of Lodz	
		Asociata Pro Consumatori	
		University of Ljubjana	
		AFI-UAM	
		Nykredit	
		European Banking Federation	
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Raquel Ferreira

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