



Minutes

4th meeting of the Banking Stakeholder Group

16 November 2011

1. Greeting and Approval of Agenda

1. The BSG Chair and Vice-Chair welcomed the members of the group to the EBA's offices and the agenda for the meeting was approved.

2. Burning Issues and Developments in the EU Banking System: Since the Last Meeting

2. The BSG Chair provided a briefing on his cover note on the main issues for discussion on the agenda items for the meeting.
3. The main issues raised by the BSG Chair and further elaborated by BSG members were: (i) the destructive sovereign-bank loop, yield increase in government bonds and the decision to mark-to-market the bonds held on the banking book; (ii) the significant variability of capital risk weights across institutions using internal models; (iii) worsening difficulties in term funding; (iv) the increase of banking leverage in Eurozone banks; (v) difficulties in mobilising additional capital and stress tests and (vi) the macroeconomic impact of bank deleveraging (in particular on lending for SMEs) as well as what the EBA could do to minimize negative impacts on the real economy and (vii) the probability of an economic slowdown and the relationship between the current market situation and the stress testing exercise assumptions.
4. Andrea Enria clarified that the EBA's stress testing assumptions were more severe than realised market conditions observed in 2011 and current forecast for 2012 and suggested that market participants' concerns are related to valuation of sovereign debt, liquidity risk and the level of capital. It was also noted that the cost of bank funding has increased and the term funding market had virtually dried up. Several banks have started a deleveraging process. Moreover the EBA's actions in relation to the EU financial system support the strengthening of banks' capital positions rather than deleveraging through reduction of assets. They also intend to support easier access to sources of funding.

3. Horizon Issues: Developing Matters of Concern to the BSG, Regulations and State of EU Banking

5. Following the discussion of agenda item 2 BSG members expressed some concerns about: (i) the timing and process of the increase in capital requirements; (ii) increasing capital through higher solvency ratio rather than levels of capital; and (iii) incentivising the raising of capital against sovereign bonds. Some of the BSG members pointed out the need to apply internal models for assigning own risk weights to government exposures and the different valuation methods for sovereign bonds in trading and banking book.
6. BSG members also cautioned about the potential overall impact of numerous CRDIV/CRR Binding Technical Standards and noted that the risk of overregulation and increasing the complexity of rules needed to be balanced against the urgent and important need to strengthen and reform the banking system. BSG members also noted the huge importance of keeping a level playing field across large and small financial institutions.

4. Incorporating Consumer Protection into EBA Work

1. The BSG Vice-chair reported on the meeting of EBA staff and SCFI chairs with BSG representatives regarding consumer protection and financial innovation matters. It was noted that the discussion revealed a willingness from both sides to strengthen the cooperation. As an initial step, EBA staff and SCFI chairs will share with the BSG the SCFI analysis, once completed, regarding the issues which the national supervisory authorities raised during the SCFI survey on national consumer practices. Moreover the EBA's draft work programme for 2012 covers a number of items on consumer issues, where the EBA is currently looking for advice from BSG members.
2. Despina Chatzimanoli (EBA Acting Head, Consumer Protection Unit) updated the Group on current and upcoming Standing Committee for Financial Innovation (SCFI) developments. Consumer protection will be one of the key priorities for the EBA as is elaborated in the EBA's draft work programme for 2012. Currently the SCFI is making an analysis of the survey results among the national supervisory authorities on national consumer practices. The SCFI is planning to focus its work over the next year on the analysis of consumer detriment in the context of the mortgage market and other indebtedness issues. Moreover the EBA is planning to organise a 'Consumer Day' around issues related to consumer protection and financial innovation.
3. The BSG members raised some consumer protection issues to be considered for inclusion in the EBA's draft work programme for 2012, including: dispute resolution for consumers of financial services across the European Union; transparency; focussing more on preventing than the final dispute; remuneration structure; mis-selling; consumer protection in cross-border area; cooperation across ESAs; ensuring a high minimum standard for consumer protection in financial services across all member states; stronger supervision at the national level; and the need to strengthen financial education.

4. The BSG Vice-chair concluded that the BSG technical working group on consumer protection should follow EBA's work closely. From that perspective, the Group will support the EBA in its work in the area of consumer protection and plans to focus its attention, during 2012, on the mortgage market, while also keeping a more general view on credit lending.

Action points:

- **BSG members to provide comments and further suggestions regarding the mandates of the technical working group on consumer protection;**
- **EBA staff with SCFI Chairs to provide the results of the SCFI survey among national supervisory authorities on national consumer issues. EBA/SCFI requests for input from BSG to be provided during 2012 on *ad hoc* matters.**

5. Substantive Issues: Liquidity and Additional Discussion on Maturity Mismatches

5. Andrea Resti provided a presentation on the organisation of the BSG technical working group on liquidity. It was noted that the BSG should closely cooperate with the EBA (including data work in some form of aggregation) and the specific tasks should be in line with EBA priorities.
6. Ivo Jarofke briefly updated on current EBA organisation on liquidity. The highest priority is to be given to the BTS on developing CRDIV/CRR, a significant number has to be prepared by January 2013. The EBA subgroup on liquidity grouped the various BTS in thematic areas and organised itself in the form of six work streams: (i) uniform reporting formats, (ii) quantitative criteria for liquid assets (iii) deposit outflows, (iv) currencies with constraint availability of liquid assets, (v) outflows from derivate positions, (vi) impact assessment.

Action points:

- **Andrea Resti to take forward the establishment of the technical working group on liquidity;**
- **BSG members to provide suggestions on liquidity topics on which they can produce short discussion papers.**

6. EBA Update on Work Programme, Forthcoming Issues, Priorities and Request for BSG Inputs

7. Andrea Enria presented an overview of the EBA's draft work programme for 2012. The work programme identifies three areas of EBA's activities and aims to define the main objectives and corresponding priorities for 2012. The main priorities of the Regulation area is to play a leading role in the creation of the single rule book for the EU banking system, through: (i) binding technical standards for Capital and capital buffers, Liquidity, Remuneration, and the Leverage ratio; and (ii) crisis prevention and crisis resolution arrangements; and (iii) transparency, simplicity and fairness in the market for consumer

financial products. Regarding the Oversight area, the main priorities are: (i) independent and high quality analysis of EU banks and the EU banking sector; and (ii) promote supervisory convergence to ensure that colleges are run consistently and efficiently. The priorities of the Operations area are: (i) enhancement of the internal control environment; and (ii) the EU Internal Control Standards.

8. BSG members raised some issues for consideration in the EBA's draft work programme for 2012, including the EBA's communication strategy in relation to its planned consultations on its policy proposals; whether sufficient attention had been given to work on Internal Governance and Remuneration; whether more could be done in relation to differing accounting treatments under the Accounting Directive, national Standards and under IFRS; proportionality; the individual and cumulative impact assessment of the proposals, in particular on the economy; and the expected input from the BSG and the timeline for such input.
9. Andrea Enria clarified that timelines for the EBA guidelines and BTSs are determined by EC/legislative process; that the EC performs Impact Assessment in its legislative proposals and that the EBA will complement the EC's work with some impact assessment on its technical proposals. It was also noted that the EBA assesses proportionality in its policy proposals; and that the EBA will incorporate the timing for its proposed consultations into its work programme. Further, the EBA will provide BSG with indicative timelines for input.

7. Consultation on EBA Guidelines

10. Christian Moore gave a presentation and provided two discussion papers on Stressed Values at Risk (Stressed VaR) and Incremental Default and Migration Risk Charge (IRC) used for the calculation of the required capital for market risk in the trading book. It was clarified that the public consultation on these two guidelines should start at the end of 2011. BSG members were welcome to raise initial comments during the meeting and final written comments related to guidelines within the public consultation timeline.
11. Initial comments raised by BSG members regarding the discussion paper on Stressed VaR included: applicability of the methodology in practice and potential intention of coming back to SA, using the assumption of a normal distribution, different stressed period for different legal entities, link to the CVA risk, requirements in Pillar II, relation to liquidity risk, multiplication factor for Stressed VaR and normal VaR.
12. Regarding the discussion paper on IRC, BSG members raised several initial comments: impact study and whether the already applied methods are compliant, using substantively the floors on SA, lack of distinction between national and foreign currency, and reclassification of the positions from banking into trading book.
13. Christian Moor clarified that on Stressed VaR: there is a requirement to use a stress period which depends on legal entity, application of any distribution assumption should be subject to validation, in general, national authorities

did not observe banks asking for coming back to the SA, multiplier for Stressed VaR needs to be discussed. Regarding the IRC it was noted that: the requirements have been developed by the national authorities familiar with current market practices and as a result, most of the financial institutions should already be compliant, the SA floors are dedicated to the correlation trading book which is out of the scope, moving exposures from trading book into banking for arbitrage purposes should not be possible only if trading intent changes and with approval from accountant.

Action points:

- **BSG members to provide written comments regarding the guidelines on Stressed VaR and IRC during the public consultation timeline.**

8. BSG Role, Working Methods and Priorities

14. The BSG Chair presented ideas on how to organise the BSG work. After the discussion, also related to agenda items 4 and 5, the BSG Members concluded on the following working methods:

- (i) four technical working groups have been established on: consumer protection issues, bank capital, bank liquidity and systemic issues;
- (ii) technical working groups will operate temporarily and new groups can be established on an "as needed" basis and there will be certain issues that cut across some of the groups which can be handled jointly. The technical working groups will at first last until the second BSG meeting next year and can be renewed at that juncture;
- (iii) the Chair and Vice-chair should be part of all technical working groups to ensure consistency and transparency;
- (iv) all BSG members can volunteer for a maximum of two technical working groups ensuring their ability to offer their time and attention to the issues and also to ensure fairness of influence;
- (v) each technical working group will select a co-ordinator, having regard to her/his experience and time capacity. If there is more than one volunteer, BSG members can elect through a simple majority of the technical working group members;
- (vi) the technical working groups will work only on the basis of BSG members personal capacity;
- (vii) the technical working group should mainly relay on email and phone communication, although there should be at least one physical meeting per group;
- (viii) the following co-ordinators have been nominated: Robin Jarvis (Consumer), Andrea Cesare Resti (Liquidity), Louise Lindgren (Capital) and Sony Kapoor (Systemic);

15. Andrea Enria noted that reimbursement policy and EBA staff support for the BSG technical working groups will be further investigated and expressed willingness to further tightening the cooperation with BSG through engagement in the dialogue at drafting process.

Action points:

- **BSG co-ordinators to identify the mandates and timelines for deliverables for the technical working groups.**
- **EBA staff to further investigate the reimbursement policy and EBA staff support for the BSG technical working groups.**

9. AOB

16. Remaining BSG members were asked to provide CVs and give approval for publication of their CV on the EBA website.

Action points:

- **Remaining BSG members to provide CVs and authorisation of publication of CVs on the EBA website.**

Participants at the 4th meeting of the Banking Stakeholder Group

London, 16th November 2011

Name	Representing
Andrea Cesare Resti	Top-ranking academic
Andrew Thomas Procter	Industry
Arnold Kuijpers	Industry
Birgit Roos	Industry
Bostjan Krisper	Consumers
Christian Lajoie	Industry
Daniel Gros	Top-ranking academics
David T Llewellyn (Vice-Chairperson)	Top-ranking academics
Erik Berggren	SMEs
Giles Williams	Users of banking services
Giovanni Ferri	Top-ranking academic
Guglielmo Zadra	Industry
Hiltrud Thelen-Pischke	Users of banking services
Javier De Andrés	Top-ranking academics
Louise Lindgren	Industry
Lubomir Christov	Consumers
Magdolna Szóke	Industry
Marcin Kawiński	Consumers
Michel Barbet-Massin	Users of banking services
Michelle Brennan	Users of banking services
Oliver Schuetz	Industry
Robin Jarvis	SMEs
Rudi Vander Venet	Top-ranking academics

Sony Kapoor (Chairperson)	Consumers
Sylvie Bourguignon	Users of banking services
Ute Meyenberg	Trade unions
Zita Čeponytė	Consumers
Andrea Enria	EBA
Isabelle Vaillant	EBA
Christian Moor	EBA
Ivo Jarofke	EBA
Corinne Kaufman	EBA
Despina Chatzimanoli	EBA
Tomasz Nastarowicz	EBA