



Banking Stakeholder Group

BSG 2012 21

29 June 2012

## **Minutes**

### **6<sup>th</sup> meeting of the Banking Stakeholder Group**

**20 April 2012**

#### **1. Greeting, Approval of Agenda & State of Play**

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. The Chair & Vice Chair then presented a synopsis of key matters of concern, major developments and horizon issues in EU banking.

#### **2. Developments in the EU banking system: since the last BSG meeting**

2. The EBA Chairperson relayed to the BSG the following: (i) The current status of the EBA's work in relation to the recapitalisation plans of EU banks; including the deleveraging actions of EU banks, the ECB's Long Term Refinancing Operations (LTRO) and the urgency of exploring avenues to gradually reduce the dependency of banks on ECB funding; (ii) the proposal that the EU wide stress test exercise be postponed to next year; and the need to re-focus the stress test as a supervisory exercise with particular emphasis on multiple scenarios, and include a capital threshold to be used in the stress test; (iii) CRDIV/CRR developments, and the possible reduced remit of the EBA in areas to develop Technical Standards; the concern on potential extensive use of national discretion and the implications for the Single Rule Book; and (iv) uncertainty linked to some regulatory issues that have yet to be finalised.
3. BSG members noted that banks were performing stress tests on a frequent basis but that their results were not always made public. The BSG recognised the importance and also the challenges of providing greater and more consistent disclosures in the public domain, and addressing issues of proportionality. In particular, they welcomed the disclosures as part of the EU wide stress test exercise in 2011, but recognised that such disclosures are just a by product of this exercise.
4. The EBA Chairperson advised that the EBA, following a request from the EU Commission, is undertaking some analysis on the possible reduction of risk weights for exposures to Small and Medium Enterprises (SMEs), with a view to submitting a response to the EC by the autumn. Further he invited BSG members to share research analysis or papers that they might have prepared on this issue to assist EBA in this regard staff.
5. BSG members expressed their concern on the level of discretion at the national level on use of systemic buffers but recognised that the systemic risks in Member States (MS) were very different. It was also noted that

macro-economic conditions were very different amongst the EU Member States and that lending conditions in some EU countries were very weak. This was leading to a polarisation of the EU banking system with the deleveraging having an impact both on the business cycle but also on the business models of banks in the long term.

6. BSG members agreed that given the market conditions at the end of 2011, the LTRO was necessary and had lowered the risk of a major crisis, but that exit from dependence on the LTRO was fraught, particularly given the encumbrance of assets on the balance sheet. The sustainability of certain banking models will be a key issue going forward. In addition, regulatory uncertainty is still present in a number of key areas.

### **3. Update on regulatory planning including EBA's regulatory work under development and also potentially envisaged work**

7. EBA staff provided an update of the EBA regulatory work for the second semester half of 2012 and also in 2013. It was noted that the CRD IV/CRR negotiation is still ongoing. As a result EBA mandates stemming from the latest version of CRDIV/CRRD are not stable yet.
8. A list of Binding Technical Standards and Guidelines to be developed by EBA was presented. Reference was made to the recent publication by the EBA on its survey on the implementation of the Guidelines on remuneration policies and practices; and the consultation<sup>1</sup> recently launched on the draft guidelines on the assessment of the suitability of members of the management body and key function holders; and that its consultations on draft Implementing Technical Standards (ITS) on supervisory reporting requirements for institutions; and draft ITS on reporting of large exposures, had now closed.
9. EBA staff also mentioned the work of the Joint Committee in a number of areas, including Technical Standards being developed for the conditions of the use of methods of consolidation of own funds under the Financial Conglomerates Directive, and on the risk mitigation techniques for OTC derivatives not cleared by a Central Counterparty under the EMIR. Further the ESAs are shortly to launch a public consultation on their proposed response to a request for advice from the EU Commission on the review of the Financial Conglomerates Directive.

### **4. EBA Consultation Paper on draft Regulatory Technical Standards (RTS) on Own Funds**

10. EBA staff presented its Consultation Paper<sup>2</sup> on the draft Regulatory Technical Standards on Own Funds, which is subject to a 3 month consultation ending 4 July 2012. Fourteen single standards were grouped together for consistency reasons.
11. Specifically it was highlighted that the proposed standards covered all areas of own funds, from features for instruments of the highest quality (Common Equity Tier 1 instruments) to instruments of a lower quality (Tier 2 instruments). These RTS will be part of the single rulebook aimed at

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<sup>1</sup> <http://eba.europa.eu/cebs/media/Publications/Consultation%20Papers/2012/CP03/CP-on-GL-on-the-assessment-of-the-suitability-of-directors-and-key-function-holders.pdf>

<sup>2</sup> <http://eba.europa.eu/cebs/media/Publications/Consultation%20Papers/2012/CP02/EBA-BS-2012-059--CP-2012-02v2.pdf>

enhancing regulatory harmonisation in Europe and in particular strengthening the quality of capital.

12. Further, it was noted that various provisions of the RTS will contribute to increasing the permanence of capital instruments as well as the loss absorbency features of hybrid instruments. The requirements contained in the draft RTS are mainly directed at institutions, although some of them are directed at competent authorities.
13. A further Consultation Paper on draft Implementing Technical Standards in relation to Disclosure for Own Funds by Institutions will be submitted for public consultation by the EBA before the summer.
14. The majority of these Technical Standards on own funds will need to be delivered to the EU Commission by 1st January 2013 based on the timelines in the EC's proposal for CRDIV/CRR.
15. EBA staff observed that some of the comments made by the BSG Technical Capital Working Group on Bank Capital seem to go beyond the scope of the EBA's mandate on some specific Technical Standards. For example, on Deferred Tax Assets, the mandate is how to operate the deduction. EBA Management and BSG Members exchanged views on the interpretation the EU Commission would provide on the extent of the mandates for the EBA to draft the Technical Standards on own funds.

## **5. Technical Working Group on Bank Capital**

16. Louise Lindgren provided an update on the work performed by the BSG Technical Working Group on Capital (TWGC) so far. She stated that the TWGC had exchanged views by email and conference calls on own funds, including having had telephone contact with the EBA. The TWGC would prepare a response to the EBA consultation paper on RTS on Own Funds, to submit to the EBA, under the coordination of Christian Lajoie. To date the TWGC has not discussed all the issues in the EBA consultation.
17. The Executive Director of the EBA highlighted that in accordance with the EBA regulation, the EBA will make public the opinions and advice of the BSG and the results of its consultations.

### Action point

- BSG to submit its opinion on the EBA's consultation of RTS on Own Funds in due time to enable EBA to assess BSG's comments, and included in its final proposals for the RTS and feedback statement.

## **6. Technical Working Group on Consumer Protection issues**

18. The EBA staff provided an update on the EBA's role and ongoing work on Consumer Protection and Financial Innovation. They advised that a separate unit of consumer protection and financial innovation had been established within the EBA, to demonstrate EBA's commitment to its consumer protection's role. In addition, EBA had established a separate Standing Committee to dealing with consumer protection and financial innovation issues.
19. EBA staff presented a list of areas that were on the agenda of the EBA and its Standing Committee, and sought the BSG views on how to prioritise this given limited EBA resources. BSG members were invited to provide

comments on which work to prioritise, given the limited resource of the EBA. Further EBA staff advised that they are to meet with the Financial Services Users Group, and will seek their thoughts for EBA's priorities in the consumer protection area.

20. BSG members suggested that EBA may wish to prioritise developing an early warning system to pick up signals of things going wrong at an early stage. Another priority issues suggested could be disintermediation and Peer to Peer lending; mortgages, credit cards/credit issues, psychological effects of debt/indebtedness and complaint handling. In regards to mortgages and consumer credit, a quick study of variable interest rates across Member States was suggested. It was noted that the EU Commission is working on a regulatory framework for out of court settlements and that the work of the EBA should not overlap with that of the EU Commission in this regard.

Action points:

- Robin Jarvis, Chair of the BSG Consumer Working Group, to liaise with EBA staff on consumer protection and financial innovation issues and to discuss ways forward to ensure coordination between EBA and BSG members.

## **7. Technical Working Group on Bank Liquidity**

21. Andrea Resti presented an update on the organisation of the BSG technical working group on liquidity (TWGL), who are preparing a possible position paper
22. The TWGL sought robust empirical evidence to back their policy views; and sought (i) to make original data analyses and (ii) to make reference to previous studies, albeit for the latter there appears to be a lack of adequate data.
23. The TWGL Chair stated that requests for data had been sought to the EBA but that the reply has been disappointing. EBA staff clarified that the EBA has little if any data to impart in respect to the requests of the TWGL given EBA does not receive individual supervisory data on liquidity. Further even were EBA to receive such data, it is likely to be constrained in sharing such data with the BSG due to confidentiality reasons. TWGL proposed that some members of the TWGL will acquire data on their own in order to overcome these limitations.

Action points:

- Andrea Resti to take forward the next steps regarding the works of the TWGL. BSG members are invited to provide comments on one or more selected issues.
- The revised draft the comments of the TWGL will be circulated to BSG members and will be discussed/endorsed during the July BSG meeting. The EBA staff will provide the BSG with information on its work on the data collected from a sample of banks, in order to allow the BSG to develop its own position at the July meeting.

## **7. Technical Working Group on Systemic Issues (TWGSI)**

24. The BSG Chair who is co-ordinating the work of the TWGSI provided a short update on the TWGSI. BSG members discussed the way forward for the

TWGSI and a short discussion on shadow banking ensued, noting the EC's recent Green Paper in this regard. It was noted that the term "shadow banking" is not clearly defined, and the need to investigate further the complex relationship between the banking sector and shadow banking recognising that shadow banking provides a useful source of funding and liquidity to the mainstream banking sector.

25. BSG members also discussed whether they could provide views to the High-level Expert Group on possible reforms to the structure of the EU banking sector. It was recognised that this Group is meeting with some stakeholders, and has a short deadline to prepare its report by the end of the summer. Further BSG members noted that the issues being analysed by this Group are wide ranging and diverse, and that achieving a consensus view on these issues will be very difficult by the group.

#### Action points

- The BSG chair to contact the High-level Expert Group on possible reforms to the structure of the EU banking sector, invite them to a future BSG meeting and take forward necessary steps to collect views from BSG members.
- The BSG chair will come back to BSG members on the EU Commission paper on bail-in.

#### **8. AOB**

26. The BSG proposed to write to the EU Commission seeking adequate resources for the EBA. A copy of the letter will also be sent to Sharon Bowles, the Chair of the ECON.

27. BSG members noted with regret the resignation of Oliver Schuetz from the BSG. Oliver Schuetz's contribution and commitment to the debate of the BSG will be missed. The EBA will take forward the process for filling the vacancy on the BSG.

28. BSG also noted the change in EBA staff support to the BSG and thanked Tomasz Nastrowicz, EBA, for his support.

## Participants at the 6<sup>th</sup> meeting of the Banking Stakeholder Group (BSG)

London, 20<sup>th</sup> April 2012

<u>BSG Member</u>	Representing
Andrea Cesare Resti	Top-ranking academics
Andrew Thomas Procter	Industry
Arnold Kuijpers	Industry
Christian Lajoie	Industry
Bostjan Kisper	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 academics
Guglielmo Zadra	Industry
Hiltrud Thelen-Pischke	Users of banking services
Holger Schwannecke	SMEs
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
Monica Cueva Diaz	Industry
Pamela Walkden	Industry
Robin Jarvis	SMEs
Rudi Vander Vennet	Top-ranking academics
Sony Kapoor (Chairperson)	Consumers
Sylvie Bourguignon	Users of banking services
Ute Meyenberg	Trade Unions
Zita Ceponyte	Consumers

### From the EBA

Andrea Enria  
Adam Farkas  
Isabelle Vaillant  
Corinne Kaufman  
Carlos Zarco  
Delphine Reymondon  
Ivo Jarofke  
Tea Turcaniova  
Shamim Diouman