

EBA BSG 2017 075

Banking Stakeholder Group

23 October 2017/9:30-17:00

Location: London

EBA-Unrestricted

Banking Stakeholder Group –Minutes

Item 1.: Welcome and adoption of the agenda

1. The BSG Chairperson together with the EBA's Chairperson welcomed new BSG Members, Herve Guider and Razvan Antemir.
2. The agenda and the minutes of the previous meeting held on 5 July 2017 were approved.

Item 2.: BSG update on the latest developments

A) BSG Chairperson to update on recent developments and to allocate the work on the EBA's Consultation Papers

3. BSG Chairperson recalled the BSG responses to the EBA's consultation papers issued since the last BSG meeting and allocated the preparation of responses to EBA's papers under consultation amongst the various BSG Technical Working Groups.

B) Update of BSG Technical Working Groups' Activities

4. The respective leaders of the BSG Technical Working Groups presented their work.

Item 3.: EBA update on general developments

A) EBA Chairperson's update on general developments

5. The EBA Chairperson informed that the EBA is working on various aspects with regard to Brexit. He referred to the EBA's recently published Opinion which aims to provide practical recommendations to EU competent authorities (and guidance to credit institutions, investment firms and other financial services firms), and to highlight to the Commission, areas of the legislative framework which could be updated to respond to challenges posed by the exit of the UK, focused on the 18 month period prior to the departure of the UK from the EU.
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6. He also updated on the EBA's work on Non-Performing Loans (NPLs), noting the EBA's mandates contained in the Council Action Plan published in July 2017. He informed that the EBA is working on a number of projects to enhance the efficiency of secondary markets for impaired assets. The EBA is developing standardised templates for NPLs, as part of a common data infrastructure, which might include common platforms. Further the EBA is contributing to the preparation of blueprints for national asset management companies (AMCs), under the leadership of the Commission. Also, the EBA is starting work on guidelines to strengthen bank practices, focused on NPLs' management, and loan origination, monitoring and internal governance.
7. In response to questions from several BSG Members, he pointed out that the Council Action Plan on NPLs sought the Commission, in cooperation with others, to develop a "blueprint" for national AMCs, and for the Commission to provide an interpretation of existing supervisory powers regarding using Pillar 1 (under Article 104 CRD IV).
8. He made reference to the EBA seeking BSG input to a proposed response to a Question related to Own Funds submitted under the EBA's Q&A Tool.
9. He informed of the EBA's Opinion on the design of a new prudential framework for investment firms tailored to the needs of investment firms' different business models and inherent risks. The Opinion includes a series of recommendations aiming to develop a single and harmonised set of requirements that are reasonably simple, proportionate and relevant to the nature of investment firms authorised to provide MiFID services and activities.
10. He updated on the preparations for the EBA's EU wide 2018 Stress Test, and informed that the EBA's BoS were due to discuss the industry's request for an extension to its timeline, given 2018 will be the first year of implementation of IFRS9. He advised that the EBA was aiming to finalise the methodology and timeline by this November, and the templates by early next year.
11. He referred to the EBA's recently published 2018 Work Programme for the EBA. He informed that the EBA was considering some options on proportionality, which could be tabled at a future BSG Meeting. In response to question from BSG Members, he informed of the EBA's work on liquidity, and that the EBA did not intend to work on Sovereign Risk in 2018.
12. One BSG Member questioned the EBA's work on the Supervisory Review and Evaluation Process (SREP), to which the EBA Chairperson referred to the EBA's Road Map on its plan to update the SREP, published in May 2017 and that the EBA would shortly be launching a consultation on its proposed amendments to its Guidelines on SREP, Supervisory Stress Testing and on Management of IRRBB.
13. One BSG Member asked about the EBA's work on the follow up in relation to the Panama Papers. The EBA Chairperson informed of the EBA's BoS discussions on the Panama Papers; referred to the proposed revisions to the AMLD, which appear to provide clauses for enhanced supervisory discussion; and he also referred to some clauses in the ESAs Joint Guidelines on risk based AML supervision.

14. EBA Staff also informed that the EBA is working on its fourth impact assessment Report for the liquidity coverage ratio (LCR). Further, as per the EBA's mandate under Article 509(1) CRR, the "EBA shall consult (as well as other stakeholders) the banking industry", the EBA will shortly be sending its draft EBA 2017 LCR Report to the BSG for their comments.

15. In response to a request from one BSG Member on EBA's relocation plans, the EBA Chairperson informed that eight Member States have lodged their official bids for hosting the EBA. Further, these bids, and their respective assessment by the Commission, have all been duly published. It is envisaged that a political decision regarding the EBA's new location will be made on 20 November 2017.

Item 4.: EC's proposal on the review of the ESAs

16. The EBA staff provided a short overview of the changes to the EBA's Founding Regulations proposed by the Commission, which had been published on 20 September 2017. Amongst the changes highlighted were the changes to EBA's existing tasks and powers - supplementing them with some specific new tasks in the area of supervisory convergence, and some more consumer issues and technological innovations within its scope of action; new tasks to develop and maintain up to date a Union resolution handbook and develop retail risk indicators for the timely identification of potential causes of consumer detriment. The Commission has also proposed significant changes to the governance of the EBA with the creation of an Executive Board comprising four senior EBA staff, which would prepare the work of the BoS and take over responsibility from the BoS for key supervisory convergence tasks and decisions.

17. The EBA Staff highlighted the proposed changes related to the BSG, namely:

- i. Composition unchanged, but 4-year terms;
- ii. Representatives of a group of stakeholders within the Group can issue an opinion where the Group cannot reach a common opinion;
- iii. Provision made for common opinions with ESMA/EIOPA stakeholder groups on Joint Committee matters;
- iv. 2/3 majority can give opinion to Commission on EBA competence to issue (own initiative) guidelines.

18. The EBA Staff informed that it is envisaged that discussions should soon start in the Council and Parliament on the proposal.

19. The BSG Members took note of the proposal.

20. Several BSG Members expressed their disappointment of the minimal changes proposed with regard to the ESAs role on Consumer Protection.



- 21.Regarding the proposal for the BSG to give its opinion on the EBA's competence to issue own initiative Guidelines, several BSG Members expressed their view that this might be difficult to reach a 2/3 majority within the BSG given the nature of the BSG's membership.
- 22.Many BSG Members welcomed the proposed extension to the term of BSG Membership.
- 23.Mixed views were expressed on the Executive Board governance proposal and on the changes to the EBA's funding – where several BSG Members pointed out some of the advantages and disadvantages to Industry funding.
- 24.One BSG Member viewed the ability for the BSG to provide a minority opinion a weakening of the BSG, which would in practice, be difficult to manage. He expressed preference for different stakeholder groups, such as one for consumers; one for academics; and one for Industry.
- 25.BSG Members were informed by the BSG Vice chairperson that the EC's webpage on its Review of the ESAs facilitates the ability to provide feedback on the EC's published proposal. Accordingly, the BSG agreed to prepare a short BSG response to the EC's proposal.

Item 5.: Update on risks and vulnerabilities in the EU

A) EBA's update on risks and vulnerabilities in the EU

- 26.The EBA staff provided some observations on the EU banking sector. The EBA staff cited the low volatility environment noting geo political risks in some countries; trends in capital and risk weighted assets, where CET1 ratios continue to improve; trends in NPLs; decrease on REAs mainly driven by the UK, Spain and Italy; and noted a positive outlook for banks' profitability. On funding conditions, the EBA Staff noted an active market for senior non preferred debts markets, likely to be driven due to BRRD requirements. The EBA Staff highlighted some short term financial stability risks in the EU banking system related to potential Brexit cliff events, noting EU27 banks' exposures to UK are substantial and uncertainties around continuity of contracts may lead to significant risks and also the provision of liquidity. He referred to EBA's work on supervisory coordination between the EU 27 and the UK with regards to banks' contingency planning.
- 27.One BSG Member observed for some Spanish banks had recently taken measures to address NPLs, and expressed their more general concern about the cost of equity.
- 28.One BSG Members expressed their concerned on the decrease of RWA in the CET1 ratio performance, and questioned if this could be due to low investment in securities.
- 29.Several BSG Members asked about the financial stability implications of recent events in Catalonia. BSG took note of some of the measures that have been taken, including changes in headquarters of some ES banks, which appear to have restored confidence in banks in the region.



30. In response to a question from one BSG Member, EBA staff informed that the EBA's upcoming benchmarking report, would contain some details on the level of collateralisation of NPLs.

B) BSG to discuss impact of Brexit

31. Two BSG Members presented their respective views of the impact of Brexit. They highlighted the potential impact of a hard Brexit to the UK and also to the EU27, providing some empirical evidence, viewing all sides had much to lose. They noted market fragmentation would likely raise transaction and trading costs, fragmentation of investment portfolios, and cited some current unknowns. They expressed their concerns regarding contract continuity. They highlighted some consequences of the loss of passporting and differing MS' national licensing regimes. They noted that banks change management programmes typically take 4-5 years, which the current Brexit timetable does not so facilitate.

32. One BSG Member pointed out their preference of mutual recognition, in a trade agreement, recognising cross border provision of services, rather than an equivalence regime. One BSG Member viewed that market fragmentation might assist liquidation. One BSG Member expressed their concern on the status of banks' preparedness.

33. One BSG Member expressed the concerns of the Payments Services Industry (PSI), who view Payment Services are global services and not limited to the EU, and their concern on the impact on its margins. The BSG Member informed that the PSI are seeking greater sharing of information, and greater reliance on the home regulator for global PSIs, and prefer a different approach to PSI regulation globally to so address.

Item 5.: EBA's Reports on banks funding plans

34. EBA staff presented an overview of its two recent reports on EU banks' funding plans and asset encumbrance, published at the end of July. EBA Staff informed that the EBA's Funding Plan report was predominantly based on different parts of the data the EBA receives from the ITS on supervisory reporting, from 155 EU Banks, and also from the EBA's semi-annual Risk Assessment Questionnaire (which also covers funding forecasts). Reference was made to some of the key risks identified in these reports, including an inference that most countries banks' assets are expected to grow throughout the forecast period; high NPL levels combined with more thinly capitalised banks look set to be a drag on new lending unless addressed; Small and medium-sized banks will require particularly careful monitoring if they are to retain unfettered access to capital markets and investors; some banks are significantly reliant on public sector financing and/or on interest income to improve profitability. It was noted that Asset encumbrance increased slightly in 2016, although a wide dispersion across institutions and countries was observed.

35. EBA Staff also provided a demonstration of the EBA's online Data Visualisation tool¹, highlighting, amongst others, that it can be used to further analyse assumed gross issuance volumes per country for the forecasted years.

Item 6.: EBA Update on regulatory deliverables

a) Progress of EBA work in Consumer Protection, Financial Innovation and Payments

36. EBA staff updated the BSG on the progress of the 12 deliverables sought of the EBA under the revised Payment Services Directive (PSD2), highlighting its Guidelines on fraud reporting under PSD2, whose consultation closes on 3rd November 2017, and its work on the EBA Register under PSD2. They also provide an update on ongoing EBA work on financial education, noting EBA's mandate in its founding Regulation, which is less ambitious than usual 'convergence' mandate, and reflects the differences in scope and depth of the education remits of national competent authorities (NCAs). They informed that the EBA is creating a 'repository' of national education initiatives based on input by NCAs. Also, they advised that the EBA is considering working on the identification of trends and good practices, and eventual publication of the work as an 'EBA Financial Education Report'. Staff updated also on the EBA's work on Fintech, highlighting its Discussion Paper whose consultation closes on 5th November 2017.

37. BSG Members took note of the update on EBA's work on financial education. One BSG Member referred to the work of ESMA and suggested EBA could coordinate. Another BSG Member viewed that the EBA needed to raise awareness amongst EU consumers of its work, and suggested creating an EBA website page dedicated to Consumer Education, citing the work of the EOC in this area. EBA Staff clarified its limited remit in this area, which is only in relation to initiatives taken by national competent authorities, noting their respective differences in remit, and thanked for the BSG for its suggestions, which EBA staff will consider as it finalises its report in the months ahead.

38. In the BSG Members' discussion on Fintech, one BSG Member was interested to know the impact of Fintech on banks' savings accounts. Another BSG Member mentioned the various International Committees, i.e. FSB, BCBS, IMF, who are working on Fintech and sought them to coordinate. Another BSG Member asked about Bitcoins and viewed international standard setters should have an aligned view on Initial coin offerings (ICO). Another BSG Member noted a few trends with regard to Digital Currencies (DCs)/Virtual Currencies (VCs)/ ICOs and their interfacing with the banking system, and suggested that they may be looked at together. He noted that some products will start to overlap. He viewed that easy access to Big Data will revolutionise the relationship between buyers and payers, amongst others. Another BSG Member noted that the IMF was looking at Block Chain, Digital SDR, Central Bank DC. Another BSG Member noted that the French Regulators do not support sandboxes.

¹ <http://tools.eba.europa.eu/interactive-tools/thematic-reports/>



39. In response to a question from one BSG Member, the EBA staff updated on its work on RegTech, citing EC's proposals for the EBA in its ESAs' review and also work in relation to the AMLD, i.e. work on Know Your Customer is looking at digital signatures.

B) ESAs role and approach in developing common AML/ CFT standards on a common understanding of the risk based approach to AML supervision

40. EBA staff gave a presentation on the ESAs work on AML/TF, highlighting the work on Risk Factors Guidelines, and how the ESAs are seeking to reach a common understanding of what the risk based approach to AML/CFT entails, which includes risk factors, risk assessment, Simplified Due Diligence and Enhanced Due Diligence. The EBA staff also referred to the work on a joint Opinion on innovative customer due diligence (CDD) solutions, and the EBA's own initiative opinion on AML regarding Asylum Seekers. Reference was also made to the ESAs' work on its Mandate on 3rd Countries, and also the EBA's work on Guidelines to enhance cooperation between banks and law enforcers, proposing some principles for a framework agreement.

41. One BSG Member suggested with regard to assessing innovative CDD solutions, the need to assess what constitutes an "identity", as concerned many use "proxies" when so performing. EBA staff clarified that under 4th Money Laundering Directive, the requirements do not just cover identification but also concern ongoing monitoring too. Further, the EBA has also met some in Industry, in connection with its concerns on controls used.

42. One BSG Member raised his concern of the impact of US legislation, the sanctions regime, and also PEPs black lists.

43. Another BSG Member asked how the EBA will address proportionality in its work.

Item 6.: EBA Update on other regulatory deliverables

A) BSG thoughts on Regulatory Sandboxes/EBA's Discussion Paper

44. One BSG Member presented his suggestions for how the BSG could respond to the EBA's Discussion Paper on FinTech. He highlighted that the BSG supports EBA's intention to further assess the features of regulatory sandboxes, innovation hubs and similar regimes, as these offer promising benefits for regulators, incumbents, new entrants and consumers alike. He referred to his presentation at a previous BSG meeting, where the BSG concluded that Sandboxes were a good thing, and was minded to concur with the EBA in that the emergence of sandboxes with different features across European countries risks created a fragmented ecosystem of national sandboxes with different regimes, with a negative influence on the creation of a predictable regulatory framework to foster innovation. He proposed that in order to avoid such a risk, it is important to establish a common framework clarifying the main operational aspects of



sandboxes, such as entry requirements, obligations while in the sandbox, and the potential regulations/waivers as well as limitations related to consumer protection and financial stability. Advances in that direction would require collaboration between the different authorities involved (EC, and the three ESAs), as each of them has different legal powers and goals.

45. One BSG Member raised his concern of the high number of FinTechs not subject to any regime, and viewed that they should be duly captured. Another BSG Member viewed the focus should be on managing risks. Another BSG Member proposed the concept of proportionality be applied, such as considering whether waivers/limits could be applied to smaller firms.

46. BSG Members agreed to publish its note on Sandboxes and respond to the EBA's Discussion Paper on Fintech.

B) Draft BSG response to EC Consultation on Cross Border Fees

47. BSG Chair asked BSG Members whether they viewed it appropriate for the BSG to respond directly to the European Commission's public consultation on Transparency and Fees in Cross-Border Transactions in the EU, noting the role of the BSG in the EBA's founding Regulation. Different views were expressed by BSG Members, where some supported a BSG response, citing at some point the EC may mandate the EBA to work in this area; others preferring to address the topic when it is remitted to the EBA and not now; others were in favour of preparing a note on this topic, but not as a reply to the COM consultation; and others viewing that the EBA should only provide its opinions to the EBA.

48. The EBA Chairperson noted the BSG's autonomy and recalled that the BSG response had prior responded direct to the BCBS on a topic. He cited that the BSG needs to consider the balance of so responding to others, relative to its role in advising the EBA, i.e. an ad hoc response every few years. He cited were the BSG to convey opinions on matters in remit of EBA to others, the BSG provide a disclaimer to state it is the BSG's view and not the view of the EBA. Further, the BSG should not use the EBA's logo in such a submission.

49. BSG Members were asked to vote if they supported in this instance, the BSG making a response to the Commission. BSG Members supported, by a Simple Majority Vote, to respond to this Commission consultation.

50. BSG Vice Chair then presented some suggestions to be included in a BSG response to this Commission consultation. BSG Members took note that the Commission's consultation was due to close on 30th October, and attention was needed in preparing a response to all of the questions posed.

Item 7.: Preparation for the Joint BoS/BSG Meeting to be held on 24 October 2017

51. BSG members took note of the following day's Joint BoS/BSG Meeting agenda.

Item: AoB

52. BSG members took note of the future meeting dates of the BSG.

Participants:

BSG Chairperson – Santiago Fernández de Lis, BBVA

Gerda	Holzinger-Burgstaller	Erste Group Bank AG
Alin	Iacob	Association of Romanian Financial Services Users
Razvan	Antemir	EMOTA
Mike	Dailly	Govan Law Centre
Nikolaos	Daskalakis	GSEVEE
Angel	Berges	AFI-UAM
Giovanni	Petrella	Universita Cattolica
Ernst	Eichenseher	UniCredit Spa
Fryni	Michail	Cyprus Consumers Association
Guillaume	Prache	Better Finance
Sergio	Lugaresi	ABI
Sabine	Masuch	Association of Private Bausparkassen
Demott	Jewell	Consumers' Association of Ireland
Peter	Muelbert	University of Mainz

Monika	Marcinkowska	University of Lodz
Santiago	Fernandez de Lis	BBVA
Martin	Schmalzried	COFACE
Christoph	Nijdam	INDEPENDENT
Simon	Hills	UK Finance
Emilios	Avgouleas	University of Edinburgh
Mark	Roach	ver.di
Michel	Bilger	Crédit Agricole
Giedrius	Steponkus	Lithuanian Investors Association
Anne	Fily	BEUC
Herve	Guider	EACB
Luigi	Guiso	Eief
Dominic	Lindley	Independent
Thaer	Sabri	European Money Association

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