

EBA BSG 2014 27 Rev1

BSG

6 March 2014 / 9.30-17.00

Location: London

Banking Stakeholder Group Meeting – Minutes

Agenda item 1.: Welcome and Approval of the Agenda

1. The BSG Chairperson and the EBA Chairperson welcomed the BSG Members and the representative of the EU Commission.
2. Several changes were noted in the composition of the BSG. Louise Lindgren explained that she had moved from Nordea Bank to LF Bank (Länsförsäkringar Bank). It was noted that she wished to remain a Member of both the BSG and the category of credit and investment institutions. Further, the BSG Chairperson mentioned that Andrew Procter had announced he was leaving Deutsche Bank to join a law firm and, because of this, would no longer be able to continue as a Member of the BSG.

Agenda item 2.: BSG Chairperson to update on developments

3. The BSG Chairperson updated the Group on recent developments. He noted that the BSG had made six submissions to the EBA on its Consultation Papers (CPs) since the last BSG meeting on 10 December 2013. Further distribution of the work on preparing possible BSG opinions to the EBA CPs would need to be decided upon at this meeting.
4. The representative of the European Commission explained the current status of the Commission proposal for a Single Resolution Mechanism (SRM). He explained that negotiations with the European Parliament started in early 2014 to allow for its adoption before the end of the current legislative period.
5. The SRM Regulation builds on the Rulebook on bank resolution set out in the Bank Recovery and Resolution Directive (BRRD). The SRM implements the BRRD in the banking union. The SRM would apply to all banks supervised by the Single Supervisory Mechanism (SSM).

6. The Commission representative further explained that the European proposals tend to go further than the requirements in the Financial Stability Board's "Key Attributes of Effective Resolution Regimes for Financial Institutions"¹, given the larger inter-linkages within the European Union and the Eurozone in particular.
7. He explained that the Commission adopted in January 2014 a proposal for banking structural reform (as a follow-up to the 'Liikanen report') for a regulation to stop the biggest banks from engaging in risky proprietary trading. The new rules would also give supervisors the power to require those banks to separate certain potentially risky trading activities from their deposit-taking business if the pursuit of such activities were to compromise financial stability.
8. The BSG Chairperson explained that the BSG had established a Standing Technical Working Group on Recovery, Resolution and Systemic Issues due to the importance and amount of work coming up in this area for both the EBA and the BSG. The BSG was reminded of the possibility to feed in to consultations that the European Commission regularly undertakes to the extent that these are relevant to the tasks of the EBA, in line with Article 37 (1) of the EBA Regulation.
9. Both the BSG and the EBA Chairperson recalled the Joint BSG/BoS meeting held on 11 December 2013 at which bank structural reform was also discussed.
10. Further, the BSG Chairperson asked Members to note the slides of the EBA legal workshop on regulatory tools and the EU institutional architecture for the financial sector².

Agenda item 3.: Banking Stakeholder Composition - Ombudsman Complaints

11. EBA staff provided a further update to the BSG about the outcome of the remaining complaints that were raised with the European Ombudsman. The EBA explained to the BSG its intended stance for responding to the European Ombudsman regarding all four decisions that were received on 7 November and 14 December 2013, noting the first response needs to be submitted by 5 April 2014.
12. The EBA intends to respond with four separate letters to each of the four cases by 5 April. The letters would be largely similar but specifically respond to each of the complaints on each point raised and in the particular order that the Ombudsman used.
13. The general message the EBA intends to give is that it acknowledges the complainants' views. The Ombudsman's services and the ESAs' staff had informal and constructive discussions during the inquiry. The EBA endeavoured to incorporate the outcomes of such discussions in its revised Selection Procedure for the BSG renewal. The EBA judges that most of the findings

¹ See https://www.financialstabilityboard.org/publications/r_111104cc.pdf.

² See http://www.eba.europa.eu/news-press/calendar?p_p_id=8&_struts_action=%2Fcalendar%2Fview_event&_eventId=498018.

have already been reflected in the renewal process of the BSG and in the revised Selection Procedure for the BSG.

14. The EBA also informed the BSG that it intends to include its comments in the submission to the Ombudsman that it raised in a letter addressed to Commissioner Barnier dated 6 November 2013 concerning the Review of the European System of Financial Supervision (ESFS). The EBA would favour a simpler requirement, which could entail a tri-partition of the membership.
15. Some BSG Members commented that the EBA should ensure that employee representatives are explicitly to be included in such a tri-partition of membership. The EBA agreed that an appropriate representation of bank employees should be assured and that the ultimate decision would remain with the European legislators.
16. EBA staff was asked to circulate the EBA's letter sent to Commissioner Barnier on 6 November 2013 in relation to the EBA workshop on regulatory tools and the EU institutional architecture for the financial sector. Subsequently, EBA staff would finalise the EBA's response to the European Ombudsman on the received complaints.

Agenda item 4.: Update on Regulatory and Oversight Developments

i) EBA Chairperson to Update on General Developments

17. The EBA Chairperson updated the BSG on ongoing regulatory developments. He raised issues around the submission of final draft BTS by the EBA to the European Commission. In some instances, the Commission had yet to finalise these BTSs (e.g. regarding reporting).
18. Further, he mentioned the SRM and possible implications this might also have for the institutional setup within the EU. Similarly, this might be the case in relation to banking structural measures.
19. He also explained that following the publication by the European Commission of its Green Paper on the long-term financing of the European economy, the EBA had been requested to provide advice about the appropriateness of promoting a safe and stable securitisation market via the identification of 'high quality' securitisation products.
20. Reference was also made to the Calls for Advice from the EU Commission in view of the preparation of delegated acts (also see below agenda item 4iv (a)). Associated with these requests, the EBA is currently facing resource issues in order to be able to meaningfully respond to these Calls.

ii) 2014 EU-wide Stress Test

21. EBA staff presented an update on the key components of the forthcoming 2014 EU-wide stress test that will be conducted on a wide sample of EU banks.

22. It was explained that the EBA was required to initiate and coordinate EU-wide stress tests to assess the resilience of financial institutions to adverse market developments. The evaluation would be based on consistency and comparability of the outcomes across banks, the coordination with competent authorities and the ECB as part of the preparation of the SSM.
23. Further, it would be a common exercise that facilitates the creation of benchmarks to contrast and compare EU-banks under common adverse market conditions, where competent authorities are provided with a consistent and comparable methodology and benchmarks to undertake a rigorous assessment of banks' resilience under stress. The effective dissemination of outcomes would be ensured.
24. BSG Members enquired regarding the changes between the stress test exercise in 2011 and the upcoming one. EBA staff explained that, for instance, different hurdle rates would be used in the scenarios; that the definition for CET1 definition is now provided in the CRR/CRDIV with transitional arrangements, and will be used instead of the EBA's own definition of capital that was previously used. Capital components subject to transitional arrangements (for example, deferred tax assets, goodwill, etc.) will be reported as memo items and publicly disclosed.
25. Hurdle rates would be set at 8% Common Equity Tier 1 ratio for the baseline scenario and 5.5% Common Equity Tier 1 ratio for the adverse scenario.
26. The stress test would again build upon a static balance sheet assumption. However, competent authorities may analyse banks' response functions and managerial actions for mitigating the impact of the stress test as part of the process for identifying supervisory measures. Prudential filters for sovereign exposures would be under the discretion of the competent authority, but the approach and impact would be disclosed.
27. Regarding the distribution of responsibilities between the EBA, ECB and the ESRB, the EBA pointed out that the EBA is responsible for the common methodology and templates, and the ESRB for providing the scenario. Also, the data hub for the final dissemination of the common exercise and the provision of common EU benchmarks for the purposes of consistency checks would be ensured by the EBA. Competent authorities would be responsible for the quality assurance process, and for communicating any additional sensitivities and the supervisory reaction function. Further, the assessment of the reliability and robustness of banks' assumptions, data, estimates and results would be ensured by competent authorities and the ECB.
28. BSG Members raised possible inconsistencies in the treatment of provisions or the application of prudential filters. Also, the non-inclusion of conduct risk was criticised by BSG Members. The EBA staff noted that such risk was generally difficult to model in a global macroeconomic scenario but that competent authorities may further look at this.
29. Further, it was raised by some BSG Members whether the stress test should aim to take into account the interconnectedness between some banks. It was explained by EBA staff that the latter would generally be considered by the ESRB, but in a qualitative manner.

30. BSG Members also enquired about the link between the Asset Quality Review (AQR) and the stress test and what action would be taken by competent authorities in case the AQRs showed weaknesses at banks and whether such information would be published upfront. EBA staff explained that the ECB would publish the results generally only in October. Where major shortfalls are detected, such information would be published earlier than October.

31. BSG Members were asked to note the draft methodology EU-wide stress test 2014.³

iii) EBA Risk Assessment Report

32. EBA staff discussed with BSG Members the possible contents of the next EBA risk report. EBA staff highlighted the following issues: capital evolution, profitability, deleveraging, asset quality, emerging market risks, mortgages as well as IT/cyber and conduct risks. Capital levels had further improved, but mainly through RWA reductions, flattening of capital, and some trends of dividends increasing relative to capital raising and that capital issuances would continue.

33. Regarding banks' nominal capital evolution, it was noted in the EBA's transparency exercise that nominal CT1 levels remained largely above the minimum floor as envisaged in the EBA recommendation. It was noted that dividend pay-outs of these 40 banks were substantially higher than CT1 capital increases.

34. BSG Members noted the split of dividend and staff bonus payouts compared to CT1 capital increases. A longer time series of such data would be needed to draw strong conclusions. Other BSG Members viewed that the split between Member States and types of banks would also be interesting for further analysis. Further, other forms of bonus payments besides cash bonuses should be taken into account by the EBA. The EBA staff explained that further work was envisaged and that data is currently limited.

35. BSG Members also commented that the deleveraging process mentioned by EBA staff was in different stages within the EU. Regarding Spain, for instance, it was explained that the deleveraging process of banks' balance sheets was half-way finished and first signs of credit growth appeared to re-emerge.

36. Regarding emerging market risks, EBA staff explained that market perceptions for European banks so far appear to be resilient against emerging market turmoil. IT/cyber and conduct risks would be an issue of increasing importance and heightened supervisory attention on governance of IT risks, and improved resilience of market participants would be needed. Concerns about the increased trend of credit risk with FX loans, and interest only loans; and transparency data, indicate high LTVs and interest only loans as a possible concern.

37. BSG Members commented that until recently emerging markets were seen more positively and banks were sometimes even encouraged to further diversify, which could also mean to

³ See <http://www.eba.europa.eu/risk-analysis-and-data/eu-wide-stress-testing/2014> and http://www.eba.europa.eu/documents/10180/617873/03032014_Methodological+Note+Industry+Discussion.pdf.

further spread out their operations, including towards emerging market countries. Indeed, some banks were able to compensate losses incurred in their European operations by the use of their emerging market activities.

38. EBA staff was asked whether the BSG could be provided with further data on the loan-to-value (LTV) ratio. BSG Members were invited to raise any further comments/observations directly to the EBA staff.

iv) EBA Staff to Present Update on EBA's Regulatory Work Under Development

a) General update on the 2014 EBA Work Programme

39. EBA staff presented an update on the EBA's work under development with regards to upcoming Consultation Papers on BTS and Guidelines. Further, the European Commission had recently issued 12 Calls of Advice to the EBA.

40. BSG Members discussed the large amount of work and agreed that further prioritisation would be needed, especially with regards to the Calls for Advice. It was explained that the EBA's Regulation does not oblige the EBA to consult on its input to the Calls for Advice with the BSG nor publically. Moreover, for some requests the EBA is provided with short timelines to provide its advice to the European Commission, thereby constraining the EBA's ability to consult. However, the EBA asked the BSG to identify those Calls where it thinks a large need for input from either the BSG or the public would exist or where the BSG could meaningfully contribute to the development of the EBA's advice.

41. BSG Members were asked to provide feedback to the BSG Chair- and Vice-Chairperson on which of the 12 mentioned Calls for Advice of the European Commission, the BSG might want to consider providing its input (see slide 6 of the presentation).

b) EBA work on credit risk deliverables

42. EBA staff presented the work ahead regarding credit risk deliverables. The EBA explained that it faces a large regulatory workload in the area of credit risk for 2014. The EBA roadmap for credit risk deliverables provided the needed prioritisation, which is driven by the CRD and CRR deliverables in the area of credit risk and the report on comparability and pro-cyclicality which was issued by the EBA in December 2013.

43. On the way forward, the EBA staff noted that with regards to transparency, the EBA considers that there is a need for regular basis statistics of risk weights, expected losses, observed default and loss rates by country/portfolio, which could be obtained, for instance, through enhanced bank disclosure using harmonised definitions and templates to achieve greater consistency and comparability. The EBA's benchmarking exercise represents a new regulatory tool

that requires the EBA to create more clarity in what drives differences. The BSG was asked for its views on how to practically conduct such a large-scale exercise.

44. Also, the EBA is driving forward regulatory developments in the areas of risk weights for exposures in default, roll-out plans and permanent partial use, definition of default and default rate, probability of default and loss given default calibration, and low default portfolios (LDP) specificities. The EBA may develop guidance on all of these topics.
45. Many deliverables in the credit risk area for the EBA of substantial content were noted. A number of issues would need to be clarified in the framework, given their impact for implementation by banks. Some aspects will be of a supervisory nature. The EBA envisages that the benchmarking exercise will provide competent authorities with tools to assess their own practices.
46. BSG Members noted that the benchmarking done to date by the EBA was useful to banks. For example, banks were looking at their peers and aim to avoid being outliers in any aspects of major importance.
47. BSG Members agreed to provide any further comments/observations on the presentation to the EBA staff.

c) EBA role and work under the BRRD

48. The EBA staff presented the work plan stemming from the Bank Recovery and Resolution Directive. It was noted that while the EBA Regulation already gives the EBA general responsibilities in resolution, the BRRD assigns various concrete roles and mandates to the EBA. Regarding rule making/standard setting, the BRRD gives the EBA mandates to develop more than 40 BTS, guidelines, and reports, in order to harmonise recovery and resolution practices.
49. Further, the EBA would have a role in advising/mediating in supervisory and resolution colleges. The EBA will have a mandate to contribute to the promotion of the effective functioning of resolution colleges and to assist Member States' resolution authorities, and will in certain cases be vested with a mediation role between competent authorities for cross border groups where it is necessary to reach joint decisions within supervisory or resolution colleges.
50. Also, the EBA would become responsible for developing and entering into non-binding framework co-operation arrangements with authorities of third countries. Finally, the EBA will have a role in collecting and publishing certain information related to recovery and resolution and will be notified about specified matters of the implementation of the BRRD, e.g. the setting of a minimum requirement of eligible liabilities and the occurrence of certain events such as the taking of early intervention measures.
51. BSG Members urged the EBA staff to aim to include the BSG as early as possible in the development process of the regulatory standards. The BSG was asked to identify topics where they

would be particularly interested in providing input, in particular with regards to valuation, bail-in and intragroup financial support (also see item 7).

d) EBA's work on quantitative impact analysis of the evolution of the minimum required capital within the regulatory framework established under the CRD

52. EBA staff presented the main findings of the report. It was noted that compared to the previous exercise, the capital results show an increase in Group 1 banks' average CET1 ratio of 0.8 percentage points, assuming full implementation of the Basel III framework; the corresponding shortfall with respect to the 7% target level (also considering capital surcharge for G-SIBs) decreased from EUR 70.4bn to EUR 36.3bn, i.e. by 48.4%.

53. Regarding liquidity, EBA staff noted that the average LCR is 104% and 132% for Group 1 and Group 2 banks, respectively. Further, two-thirds of all banks already meet the final 100% LCR requirement, while 14% are still below 60% (transitional floor for 2015). Regarding leverage, it was explained that the average leverage ratios have not changed significantly since the last report.

54. EBA staff was asked to circulate the Report on the Basel III monitoring exercise, following its publication.

Agenda item 5.: Workstream of Technical Working Groups

55. The BSG Members discussed the current flow of EBA Consultation Papers as well as the allocation and prioritisation of work including coordinators of particular CPs.

56. The BSG Chairperson explained that there were two papers where drafts had already been made and were near to completion though still awaited final comments from BSG Members:

- EBA/CP/2013/45: Credit risk transfer for securitisation transactions, which was assigned to Santiago Fernández de Lis and the Recovery, Resolution and Systemic Issues Working Group. A conference call of the Working Group was held on 28 February to discuss the draft.
- EBA/CP/2013/48: Guidelines on disclosure of encumbered and unencumbered assets, which was assigned to Marco Mazzucchelli and the Capital and Risk Analysis Working Group. A draft of the Opinion was available at the meeting.

57. Alin Iacob was asked to lead the work on [EBA/CP/2913/46]: Professional Indemnity Insurance for mortgage intermediaries. BSG Members were asked to indicate their willingness to contribute on this workstream to Alin Iacob as soon as possible. Deadline for the submission of the BSG's opinion: 18 March.

58. Sandra Hafner was asked to lead the work on [EBA/CP/2013/47]: Guidelines on harmonised definitions and templates for funding of plans of credit institutions. Deadline for the submission of the BSG's opinion: 20 March.
59. José Antonio Gonzalo-Angulo was asked to lead the work on [EBA/DP/2014/01]: Volatility of Own Funds and the revised IAS 19. BSG Members were asked to indicate their willingness to contribute on this workstream to José Antonio Gonzalo-Angulo as soon as possible. Deadline for the submission of the BSG's opinion: 14 April.
60. It was tentatively agreed not to make a submission to [JC/CP/2014/01]: Mapping of ECAI's credit assessments.
61. The BSG also tended not to make a submission to [EBA/CP/2014/01]: Margin periods for risk used for the treatment of clearing members' exposure to clients. EBA staff was asked to check whether other CPs in the area were coming up where BSG input would be particularly useful.
62. Regarding the setting-up of an Ad hoc Working Group on the Proportionality Principle, a written proposal had been made, set out in [EBA BSG 2014 17]. BSG explained that it was deemed important that the principle of proportionality was clearly understood both by the regulators and those who are being regulated. In the view of the BSG, the EBA would be well placed to give further consideration to proportionality.
63. It was agreed that the BSG would set up such an Ad hoc Working Group with the aim to practically support the EBA and contribute to the EBA's thinking regarding proportionality. The EBA Chairperson reminded the BSG that the outcomes of the Group's work will also need to be actionable for the EBA.
64. BSG Members were asked to signal their interest in participating in the Working Group to Chris de Noose, who would lead the work of the Group. Chris De Noose and the Working Group were asked to produce an outline of the report.
65. Regarding the Ad hoc Working Group on Risk-Weighted Assets, BSG Members' views differed whether the workstream should be further pursued as some BSG Members viewed that there was little need for a further empirical study on the topic and questioned whether the BSG's work could provide added value. The BSG Chairperson was asked to further liaise with the Group's coordinator Andrea Resti on the way ahead. Possibly the topic will be tabled again at the next meeting.

Agenda item 6.: Report from the BSG Standing Technical Working Group on Capital and Risk Analysis

66. The BSG Working Group Coordinator on Capital and Risk Analysis (Louise Lindgren) updated BSG Members on the Working Group's activities.

67. The Working Group had responded to [EBA/CP/2013/37], [EBA/CP/2013/38], [EBA/CP/2013/39], [EBA/CP/2013/41] and the Consultation on Methodology for the Assessment of Liquidity and Financial Risk.
68. The Working Group Coordinator highlighted the Working Group's procedures. The work is mainly conducted by email, but if needed also by conference calls. The person responsible for the work for each consultation is also responsible for submitting the draft responses to the Working Group and to the full BSG. The submission of the BSG's final Opinion to the EBA would be done by the BSG Chair- or Vice-Chairperson.
69. The full BSG should be given at least 5 working days to give comments on the draft response and also the Working Group should be given 5 working days to give comments meaning that a near-final draft should be ready at least 10 working days before it should be submitted to the EBA.
70. The BSG responses should start with a general overview stating the BSG's main conclusion and main concerns. In the second part the more technical issues could be elaborated. The work in the Working Group cannot be dictated by the timing of BSG meetings, as the work needs to continue between the meetings. In order to make sure that each consultation ends up in the right Working Group it should be coordinated which CP is allocated to which Working Group.
71. BSG Members were also asked to submit comments on the proposed BSG Opinion to [EBA/CP/2013/48]: Draft guidelines on disclosure of encumbered and unencumbered assets by 11 March.

Agenda item 7.: Report from the BSG Standing Technical Working Group on Recovery, Resolution and Systemic Issues

72. The BSG Working Group Coordinator on Recovery, Resolution and Systemic Issues (Santiago Fernandez de Lis) updated BSG Members on the Working Group's activities. He noted the EBA's work ahead, as also presented by EBA staff.
73. The Coordinator of the Working Group was asked to liaise with EBA staff on the EBA's further work programme regarding the BRRD.
74. Santiago Fernandez de Lis was asked to circulate the draft BSG Opinion on [EBA/CP/2013/45]: Credit risk transfer for securitisation transactions by around 11 March for further comments of the Group.

Agenda item 8.: Report from the BSG Standing Technical Working Group on Consumer Issues and Financial Innovation

75. The BSG Working Group Coordinator on Consumer Issues and Financial Innovation (Robin Jarvis) updated BSG Members on the Working Group's activities. It was noted that the BSG decid-

ed to develop an Opinion regarding the consultation on Professional Indemnity Insurance (PII) for mortgage credit intermediaries (EBA/CP/2013/46). Further, the BSG noted that the EBA had published its Consumer Trends Report, which also included input from the BSG.

76. Some BSG Members raised the possibility of the use of conduct risk indicators and suggested to further liaise with EBA staff on these.

77. Further, BSG Members were reminded of the ESA's Joint Consumer Protection Day scheduled for 4 June in London. Further information would be provided by EBA staff at a later stage.

Agenda item 9.: Next Meetings

78. The BSG was reminded of the 2014 meeting dates and in particular the 12/13 May 2014 BSG only and Joint BSG/BoS. BSG Members were asked to think about possible topics for discussion with the BoS and to raise in due time to the BSG Chair/Vice-Chair as well as EBA Staff. The BSG Chair- and Vice-Chairperson together with EBA staff would further liaise on the agenda for the 13 May Joint meeting.

Agenda item 10.: AOB

79. There was no other business.

Participants at the meeting of the Banking Stakeholder Group (BSG)

London, 6 March 2014

<u>BSG Member</u>	Representing
David T. Llewellyn (Chairperson)	Top-ranking academics
Jean Berthon	Consumers
Michel Bilger	Credit and investment institutions
Javier Contreras	Consumers
Nikolaos Daskalakis	SMEs
Chris De Noose	Credit and investment institutions
Santiago Fernandez De Lis	Credit and investment institutions
Eilis Ferran	Top-ranking academics
Jose Antonio Gonzalo-Angulo	Top-ranking academics
Sandra Hafner	Credit and investment institutions
Troels Holmberg	Consumers
Zdenek Hustak	Top-ranking academics
Alin Iacob	Users of banking services
Robin Jarvis	Users of banking services
Bostjan Krisper	Consumers
Nina Dietz Legind	Top-ranking academics
Louise Lindgren	Credit and investment institutions
Dominic Lindley	Users of banking services
Marco Mazzucchelli	Credit and investment institutions
Ute Meyenberg	Employees
Jesper Bo Nielsen	Employees
Holger Schwannecke	SMEs
Magdolna Szóke	Credit and investment institutions

From the European Commission

Mario Nava

From the EBA

Andrea Enria
 Adam Farkas
 Philippe Allard
 Stefan Andresen
 Dirk Haubrich
 Lampros Kalyvas
 Corinne Kaufman
 Lars Overby
 Mario Quagliariello