



EBA BSG 2016 002

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Banking Stakeholder Group

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15 December 2018/9:30-16:30

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Location: London

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# Banking Stakeholder Group meeting – Minutes

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## 1.: Welcome and approval

1. The BSG Chairperson welcomed BSG members. The BSG approved the provisional agenda of the meeting and the minutes of the 26 October 2015 BSG meeting.

## 2.: BSG to update on developments

### A) BSG Chairperson to update on recent developments and to allocate outstanding papers

2. The BSG Chairperson informed of the submission of two BSG opinions since the last meeting. He noted that a conference would be convened on 15 January 2016 in Brussels at the premises of the European Savings and Retail Banking Group, to present the BSG Report on Proportionality. He also suggested submitting the report to the European Commission's Call for evidence on the EU Regulatory Framework for financial services and asked BSG members to let BSG Chairperson and Vice-Chairperson know as to whether to make a BSG formal response in addition to submitting the Proportionality Report.
3. The BSG Vice-Chairperson proposed that the report may be sent with an accompanying letter specifying the salient points of the report. Another BSG member suggested submitting the report to the European Commission's Internal Market and Services Directorate General.

### B) BSG Chairperson to present his views on the End of Term of Office Report (ETOR)

4. The BSG Chairperson offered his suggestions for the design of this report. He considered to include a general part on what the BSG had been doing since its establishment in October 2013 and another part with various statements on topical issues, including comments on the EBA's budget constraints, some elements on the BSG's Proportionality Report, some views on
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the BSG composition, and any other issues that the BSG wants to be addressed. One BSG member suggested including helpful suggestions to facilitate a smooth transition with BSG III. BSG members were requested to provide their views on the possible items to be included in the ETOR.

5. EBA staff was asked to circulate the suggestions submitted by the EBA to the European Commission to amend the composition of the BSG, as well as the first version of the ETOR provided by BSG I.

### C) Update of BSG Technical Working Groups' Activities and Allocation of BSG work

6. The leader of the Technical Working Group on Capital and Risks Analysis noted that the BSG submission on the EBA Guidelines specifying the application of the definition of default would be ready shortly. The leader of the Technical Working Group on consumer protection and financial innovation informed that several BSG members sent in their comments to EBA on the Consumer Trends Survey previously sent by EBA staff.
7. The BSG Chairperson allocated the work to be carried out in preparing the BSG response to the following consultation papers launched by the EBA:
  - EBA/CP/2015/19 allocated to Emiliós Avgouleas
  - JC/CP/2015/073 allocated to Zdenek Hustak (PRIIPS key information)
  - EBA/CP/2015/26 allocated to Michel Bilger (ICAAP/ILAAP)
  - EBA/CP/2015/28 allocated to Robert Priester (GL on Stress testing)
  - EBA/DP/2015/03 allocated to Anne Fily and Santiago Fernandez de Lis (PSD 2)
  - EBA/CP/2015/29 allocated to Dominic Lindley, Ute Meyenberg and Jesper Bo Nielsen (Remuneration Requirements for Sales staff)

Three EBA's Papers were unallocated: EBA/CP/2015/22, EBA/CP/2015/20, EBA/CP/2015/24.

### D) Report on proportionality: Follow-up

8. The leader of the Ad Hoc Working Group on proportionality presented the conditions of the dissemination of the report. It was expected to be sent to 500+ targeted persons, including press officers, journalists, representatives of administrative bodies and EU Institutions. The BSG Chairperson informed that the report had been well received when he recently presented it at a SUERF meeting and at an Ernst & Young conference.
9. The BSG members were requested to disseminate the report to their professional contacts.

### 3.: EBA to update on general developments

#### A) EBA Chairperson to update on general developments

10. The EBA Chairperson informed that the EBA was convening a conference at the Guildhall in London on 5 February 2016 for the EBA's 5th anniversary. An invitation had been circulated to BSG members. The event would include a panel discussion on how the banking landscape in the European Union (EU) had evolved over the past five years. Amongst the panellists, there would be policy makers, consumers and industry representatives, academics and experts.
11. He also informed that the deadline for sending in the applications for membership for the next term of the BSG closed on 15 December (the day of the meeting). The EBA staff was expected to prepare for review by the Management Board in January a proposal with regard to the new members. A proposed list of new members, together with a possible reserve list would be sent to the Board of Supervisors for their decision in February. The last meeting of the BSG II would be held on 16 February 2016 and the official end of the second BSG would be on 14 April 2016.
12. He presented the EBA's draft Opinion on Maximum Distributable Amount (MDA) noting the discussion on transparency of Pillar II requirements at the recent BoS meeting and informing that this Opinion would be published later in December.
13. He also cited that the EBA would shortly be publishing some regulatory products on proportionality, linked to prudential requirements for risk takers/remuneration to be accompanied by an EBA Opinion on the application of the principle of proportionality to remuneration provisions.
14. He informed of the imminent publication of the EBA's report on the impact assessment and calibration of the Net Stable funding Ratio (NSFR), where he observed that the report opened the possibility for the smallest banks to report differently and that a simplification of the ratio's calculation had been introduced to minimise the burden on small banks.
15. Regarding the EBA Guidelines on limits on exposures to 'shadow banking entities', the EBA Chairperson explained that the revised Guidelines address, as much as possible, the main issues raised in the responses to the public consultation. The amendments mainly provide for clarifications or further exemptions to the definition of 'shadow banking entities', and also the redesign of the fallback approach to make it less strict and provide more incentive for the institutions to use the 'principal approach' to properly identify and limit exposures to unregulated/lightly regulated entities.
16. One BSG member relayed the concerns of the banking industry by pointing out that the triggers included in the Guidelines are automatic and therefore potentially detrimental as the banks, under these conditions, would not be able to pay their shareholders. The EBA Chairperson reported that this issue was heavily discussed at the BoS.

17. The EBA Chairperson mentioned the discussions on stress testing also discussed at the BSG meeting. Equally, he made reference to the discussions on the EBA's work under the Payments Services Directive II discussed later at the meeting.
18. He indicated that the EBA had planned to conduct an impact assessment exercise on the application of IFRS 9 during the first quarter of 2016 and in so doing to invite a sample of around 50 institutions to this exercise to submit their responses to the EBA. Before launching the exercise, the EBA would like to pre-test the templates with the BSG so as to receive technical comments on the templates to make sure that information which is to be requested is sufficiently clear and appropriate so as to address the objectives of the exercise.
19. He also mentioned the issue of the criteria for exposures to Regional Governments (RG) or Local Authorities (LA), where the EBA sought to apply similar treatment to that applied to sovereign bonds. He also presented the main results of the stocktake of criteria that had been used by CAs to assign their RGs and LAs to the EBA list. All RGs and LAs that were assigned to that list were allowed to be treated as an exposure to the central government, and therefore benefit from the 0% risk weight. He informed that the ECB SSM under its consultation on the application of options and national discretions used under its Eurozone jurisdiction, with regard to CRDIV-CRR, is considering to increase the transparency on the list of PSE entities treated as exposure to the CG, RG or LA. He suggested that the EBA may ask the EU institutions for a similar mandate to that of the EIOPA.
20. One BSG member focused on the importance of the discussion on IFRS 9 as it was strongly linked to the Standardised Approach which would be developed.
21. The BSG Vice-Chairperson asked for further clarification on the EBA Opinion on remuneration regarding the use of waivers under the current framework. The EBA Chairperson observed that those waivers were not compatible with European legislation. The EBA Guidelines on Remuneration covered proportionality so as to achieve harmonisation vis-à-vis national implementation. However the Guidelines were not expected to have an impact on the current framework. He also pointed out that the Competent Authorities were not allowed to apply waivers. Another BSG member raised his concerns about the different approaches used by the ESMA and the EBA in terms of proportionality. He called for further alignment on this issue.
22. One BSG member questioned about the requirements on Pillar 3 and the timetable for application. The EBA Chairperson explained that the EBA was working on Pillar 3 and the EBA should take up this issue around the middle 2016.

## B) Update on Risks and Vulnerabilities

23. The EBA staff presented an overview of risks and vulnerabilities in the European banking system, and focused in particular on two topics: the transparency exercise, whose final report had been published recently, and the risk assessment report.

24. The EBA staff informed that the EU banks had continued to strengthen their capital ratios in 2015 and made comments on:

- The leverage ratio: EBA staff explained that a calibration period would run until 2018. In 2018, a minimum requirement should be established. EBA staff recalled that the Basel text fixed it at 3% but it could be higher;
- Lending business, noting that the share of banks which planned an overall increase of their balance sheet was nearly unchanged compared to last year.
- In 2015, Consumer finance and Commercial Real Estate had shown the highest growth;
- Sovereign bonds, noting that cross country holdings had gradually been increasing;
- Quality of assets, which remained a major concern in the EU and was highly variable across the jurisdictions;
- The optimism around banks' future profitability; and
- Some risks from emerging markets that had risen in importance and were linked to asset quality issues as well as the risk of a global economic slowdown.

25. The BSG Chairperson inquired about the danger that the Chinese banking system could represent and asked EBA staff to insert the Chinese perspectives in their future presentation of the risks and vulnerabilities. He also observed that the report was focused on the very short-term which detracted from a better understanding of structural changes occurring in the industry. He suggested a different approach more focused on a longer-term analysis/perspective.

26. Another BSG member asked about the future prospects for SME lending as the sector expected an increase. The EBA staff responded that the expectations for the next six months were increasing but would not be as significant as the sector was expecting. It revealed a caveat in the methodology given the respondents from the banking industry might wish to embellish the situation.

27. Another BSG member raised a methodological issue regarding the sustainability of the RoE's trends. He considered that a number of banks had a level of profitability which was not high enough to ensure long-term sustainability. He viewed that there would be a seasonal effect in the methodology and asked for further information.

28. In a view to having a better understanding of the developments in the regulatory capital, another BSG member suggested comparing the last data on RoE with the ones released last year at the same period.

## C) 2016 EU-wide Stress Tests – Update on Stress Tests

29. The EBA staff informed of the key features of the 2016 EU-wide stress tests, including a bottom-up and static balance-sheet approach. The 2016 exercise would not be a pass-fail exercise, i.e. no capital threshold was defined. The stress test would be based on a common baseline and adverse scenario. The time horizon of the exercise would be 2016 – 2018 based on data as of end-2015. The sample of banks would include 53 banks – 39 from SSM countries and 14 from other countries. It would be a solvency stress test covering the impact of stressed risks on capital and profitability (conduct risk and other operational risk would be added to the scope for 2016). In terms of process, there would be strong cooperation between EBA, ECB, NCAs, ESRB and European Commission.
30. The EBA staff also presented the key changes to the draft methodology by risk type and key comments already received from the industry.
31. One BSG member observed that the contributions made by the BSG were taken into account in the final EBA paper on stress test. He also stressed the importance of the dialogue between the supervisors and the banks. There still were two areas of concern: i) risk sensitivity and ii) conduct risk. He viewed that the phase-in ratio should also be harmonised as it was the starting point of the stress tests. However this issue had already been raised in the previous stress testing exercise.
32. Another BSG member inquired about the conduct risks included in the stress test methodology.

## 4. EBA to update on its work and regulatory products on consumer protection and financial innovation

### A) Update on recent publications

33. The EBA staff presented the Consultation Paper on the draft Guidelines on remuneration for sales staff which were to be published in the next following days (ex-post meeting: the CP was published on 22/12/2015). One BSG member asked for further clarification on whether entities subject to the GLs will be audited to ensure compliance with the future requirements. Another inquired whether the GL would cover remuneration deriving from collective bargaining between employers and employees. Another BSG member asked whether the GLs were considering other forms of incentives, such as the quantitative objectives assigned to sales staff.
34. The EBA staff also presented two other papers, i) CP on EBA benchmark rate under the MCD and ii) JC DP on Automation in Financial Advice. One BSG member opined that the paper was well balanced.

## B) Discussions on envisaged publications in the coming months

35. The EBA's staff advised that the EBA envisaged to issue in the first quarter of 2016 a Discussion Paper on its work on commercial use of consumer data by financial institutions. Some BSG members raised their concerns as this field was a complicated area. One BSG member observed that data were used in different ways with a huge variance across the EU. They viewed that the compromise was difficult to reach in certain countries where the banks required consumer data to assess their creditworthiness. Another BSG member exposed the Dutch experience on the use of data. Another BSG member asked whether the EBA was working on this topic in cooperation with the EIOPA which was not the case according to EBA staff. The BSG Chair suggested that BSG members could send their contributions on the topic of commercial use of consumer data to the EBA while the work towards the drafting of the Discussion Paper is still ongoing. EBA staff welcomed this initiative.
36. The EBA staff presented the BSG inputs to the Consumer Trends Report for 2016, helping to identify topical issues such as household borrowing, mis-selling or alternative forms of finance. The EBA staff was assessing these responses to determine the final set of topical issues for the Consumer Trends Report 2016.

## 5. EBA to update on its work and regulatory products on payments

37. The EBA staff informed of the various mandates conferred on the EBA in the Payment Services Directive (PSD2) that would comprise six technical standards, five sets of Guidelines, and a register.
38. The EBA staff presented three regulatory products on Payments: i) DP on Strong Authentication and Secure Communication, ii) CP on draft RTS Specifying Cooperation and Exchange of Information under PSD2, iii) CP on draft RTS on Separation of payment Card Schemes and Processing Entities under the IFR.
39. One BSG member highlighted the need for a balanced compromise between security for consumers and the banks' capacity to use new technologies and continue innovating.

## 6. EBA to update on other regulatory products

### A) Draft Consultation Paper on EBA Guidelines specifying the application of the definition of default (B-Point)

40. The EBA staff presented the Guidelines specifying the application of the definition of default which were published on 22 September 2015 for consultation until 22 January 2016. Simultaneously a QIS was launched to assess the likely impact of the most important policy

options included in the draft Guidelines. Final Guidelines would take into consideration the results of the QIS and industry's feedback received in the consultation period.

41. The BSG leader preparing the BSG opinion on these Guidelines informed that an opinion would be ready shortly. As a general comment, he flagged that the industry supported the changes introduced but needed time to implement them as they triggered significant changes for the credit institutions, in particular on models. He also stressed the link to IFRS 9 and the need to have a harmonised definition with IFRS 9. The EBA staff explained that the EBA was cognisant of the industry's timings need, and regarding the harmonisation with IFRS 9, the need to ensure a balance between the pressures on the process and the operational difficulties.

## B) Draft Consultation Paper on EBA Guidelines on ICAAP and ILAAP Information (B-Point)

42. The EBA staff presented the objectives and the content of the recently launched EBA consultation on its proposed Guidelines on ICAAP and ILAAP information and the process to be followed. He explained that the aim of these guidelines was to assist in the consistent implementation of the EBA's SREP Guidelines and to help competent authorities to have a set of ICAAP and ILAAP information that would facilitate their assessment under the common SREP framework. The consultation period was open until 11 March 2016. These Guidelines are expected to be finalised by June 2016.
43. One BSG member called for further clarification due to the differences in practices in the EU Member States. This member suggested setting up a Working Group liaising with EBA staff to better define the provisions of the Guidelines on ICAAP/ILAAP.
44. Another BSG member asked for clarification on the information that the credit institutions should submit to the CAs and suggested better distinguishing the general and specific information required.
45. One BSG member raised the question about the distinction between the SSM countries and non-SSM countries as the SSM has published some documents describing the methodology to be followed whilst assessing ICAAP/ILAAP. EBA staff recalled that this SSM document was an internal guideline and that the EBA would publish a handbook on how to assess ICAAP/ILAAP.

## C) Draft Consultation Paper on EBA Guidelines on stress testing and supervisory stress testing (B-Point)

46. An EBA staff member presented the rationale behind the production of these revised guidelines. He informed that the development of taxonomy was a key first step in the review of the stress test guidelines. He informed of the major changes in the reviewed Guidelines, including data infrastructure, the insertion of conduct risks, the reviewing of other risks and inclusion in the main body of the guidelines instead of annexes, further improvements and

clarification regarding the use of reverse stress testing to highlight their importance. He also presented new important sections such as guidelines for supervisory stress testing and the link with the SREP.

47. The EBA envisaged launching a consultation on these Guidelines shortly which would run until mid-March 2016, with a public hearing in February 2016.

48. One BSG member asked about any potential EBA recommendations, in particular on the scope of the reverse stress tests and the role of data infrastructure. The EBA staff viewed that there was no specific recommendations needed but highlighted important changes such as the minimum requirements similar to other type of stress tests. They clarified that there was no formal way of doing this type of reverse stress tests in order to not constrain institutions and take into account proportionality issues. The data infrastructure follows very closely the principles from BCBS 239

49. Another BSG member expressed his concerns about the consistency of the stress testing exercise with the scenarios, in particular in the case of the reverse stress tests. The EBA staff agreed but it is also an important characteristic of the reverse stress tests not to be constrained by other stress tests in order to be allowed different perspectives.

## 7. Updates from BSG

### A) Transparency of Pillar 2 requirements (A-Point)

50. One BSG member presented a study case based on the analysis of the Capital Requirements for Swedish banks. She described the Swedish banking perspectives through the disclosed capital requirements for the four largest banks (Nordea, SEB, SHB, and Swedbank). She compared the situation of these banks with a specific focus on the Capital Requirements on Pillar II. In so doing, she demonstrated that the large banks were very systemic compared to the Swedish GDP and had a high level of reported CET 1 capital.

51. Whilst it was noted that the Swedish FSA had adopted a transparency approach, she made a clear focus on Pillar II requirements which are not legally binding, and therefore not disclosed.

### B) Development of the green bonds market (A-Point)

52. One BSG member presented a paper on the development of the green bonds market. She defined the minimum requirements to categorise a green bond. She also flagged the expected impacts of green bonds in terms of transparency and accountability of climate finance, of incentive to better take into account the environmental impact. She highlighted the key market trends as the green bond market had regularly grown since 2012 and stressed the ongoing diversification of issuers, considered as a step to build a real asset class. She put in light some of the dangers of these bonds.

53. One BSG member put forward that in the Basel discussions on standard methodology for credit, green bonds had been included. Another member explained the success of this class of asset thanks to the current profitability which might not be sustainable.

List of participants:

From the BSG

Mike	Dailly	Consumer
Anne	Fily	Consumer
Sandra	Hafner	Credit and investment institutions
Alin Eugen	Iacob	User of banking services
Roberto	Priester	Credit and investment institutions
Chris	De Noose	Credit and investment institutions
Arnold	Kuijpers	Credit and investment institutions
Zdenek	Hustak	Academic
Nikolaos	Daskalakis	SMEs
Louise	Lindgren	Credit and investment institutions
Javier	Contreras Forns	Consumer
Ute	Meyenberg	employee
Jesper Bo	Nielsen	employee
Michel	Bilger	Credit and investment institutions
Robin	Jarvis	consumer
José Antonio	Gonzalo-Angulo	academic
Holger	Schwannecke	Credit and investment institutions
Santiago	Fernández de Lis	Credit and investment institutions

Sabine	Masuch	Credit and investment institutions
Bostjan	Krisper	User of banking services
Dermott	Jewell	Consumer
Ernst	Eichenseher	Credit and investment institutions
Alf	Alviusien	User of banking services
Dominic	Lindley	User of banking services
David	Llewellyn	academic
Andrea	Resti	academic

4 members were absent: John Hollows (credit and investment institutions), Emiliios Avgouleas (academic), Nina Legind (academic), Troels Holmberg (consumer).

From the EBA

Andrea Enria – EBA Chairperson  
Adam Farkas - Executive Director  
Slavka Eley  
Corinne Kaufman  
Mario Quagliariello  
Rita Bairros  
Cédric Coraillon-Parquet  
Samuel de La Rocha  
Geoffroy Goffinet  
Angel Monzon  
Vinay Pranjivan  
Bernd Rummel  
Dorota Slawek