



EBA BS BSG 2022 021

Board of Supervisors and Banking
Stakeholder Group

13 July 2022

Location: Virtual - Webex

Banking Stakeholder Group 13 July 2022 – Minutes

Agenda item 1: Welcome and approval of the agenda

1. The Chairperson asked the BSG members whether there were any comments on the draft agenda. There were no comments on the agenda.
2. A new BSG member, Mr. Wolfgang Johann Gerken, was welcomed, joining the meeting for the first time. He is currently The Head of Prudential Regulatory Affairs at Skandinaviska Enskilda Banken (SEB). He was invited to express his interest in joining the following BSG Working Groups: WG 2 on Supervision, Governance, Accounting, Reporting and Disclosure, WG 4 on Payments, Digital, Fintech and Regtech or WG 5 on Sustainable Finance).
3. Finally, the Chairperson informed the BSG that the Minutes of the 22 April meeting have been approved by written procedure.

Conclusion

4. The BSG approved the agenda of the meeting.

Agenda item 2: BSG update on the latest developments

5. Each BSG Working Group coordinator provided an update on their work since the 22 April meeting.
 6. WG 1A, on capital and prudential issues, reminded that the main objective for 2022 is to accompany the implementation of the Basel rules in the EU with the CRR 3 / CRD 6 package.
 7. WG 1B on resolution matters is currently working on *the Guidelines to resolution authorities on the publication of their approach to implementing the bail-in tool* toward early September.
 8. WG 4 on payments, digital, fintech and regtech, took note of the EBA staff presentation on DORA from the April meeting and has been working on the creation of an informal subgroup
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on DORA in order to also work jointly with the relevant members of ESMA and EIOPA stakeholder groups, to coordinate an action plan.

Agenda item 3: EBA update on general developments

9. The EBA Chairperson highlighted some of the major developments since the 22 April meeting. He stressed the importance of the Peer review on the supervision of NPEs management. He noted that the overall outcome of the peer review is quite positive as the EBA Guidelines on management of non-performing and forborne exposures have been largely implemented by the CAs and applied in their supervisory practices. The report shows that there are no particular problems or significant concerns identified for any of the authorities, and therefore there are no authority-specific recommendations.
10. He also mentioned that the EBA published its Annual Report which describes in detail the activities and achievements of the Authority in 2021 and provides an overview of the key priorities for the coming year. The Chairperson also explained that the EBA has continued to monitor the implementation of the Basel III regulatory framework and decided to make the Basel III monitoring exercise mandatory as of December.
11. He also noted that the list of Other Systemically Important Institutions (O-SIIs) in the EU was updated, that is entities which are identified as systemically important by the relevant authorities according to harmonised criteria laid down in the EBA Guidelines.
12. The EBA Chairperson also explained that the EBA published its final Guidelines on the remuneration benchmarking exercise under the Capital Requirements Directive (CRD), which were originally published in 2012 and updated in 2014. He noted that the update was necessary to take into account additional requirements introduced by CRD V regarding the application of derogations and the benchmarking of the gender pay gap. The EBA also added guidance to harmonise the benchmarking of approvals granted by shareholders to use higher ratios than 100% between the variable and fixed remuneration. To be noted, separate Guidelines on the remuneration and gender pay gap benchmarking exercise are provided for investment firms under the Investment Firms Directive (IFD).
13. Finally, he underlined that on 24th June, the EBA published an Opinion and Report in response to the European Commission's Call for Advice (CfA) on the review of the Mortgage Credit Directive (MCD) and on the review of the Payment Services Directive (PSD2). In this Opinion, the EBA proposes to review the MCD to facilitate the smooth functioning of the internal market for mortgages, foster a level-playing field across all types of lenders and ensure a higher level of consumer protection across EU Member States.

Agenda item 4: Update on BSG mandate (B-Point)

14. The Head of the GEA unit provided a general update on the BSG mandate following the last implementation of the ESAs Review. Changes have been made relating to the composition, length of mandate and scope of activities of the Stakeholder Group, amended with effect on 1 January 2020. This BSG is at the moment halfway through its four-year mandate, ending in June 2024.
15. He also explained that the BSG Chairperson and Vice-Chairperson should be elected for a period of two years and that such election should be preceded by and based on a nomination procedure. At the 27 October 2020 meeting of the BSG, BSG members elected Rym Ayadi as Chair and Eduardo Avila Zaragoza as vice-chair for a period of two years, that is until 26 October 2022. Therefore, the next election of the BSG Chair and Vice-Chair will take place at the 20 October meeting of the BSG, following a call for applications launched at the 13 July meeting. The BSG Chair and Vice-Chair elected at the 20 October 2022 meeting should take up their functions on 27 October 2022, when the previous mandate will have expired.
16. The head of the GEA Unit also explained that the EBA will launch a call for expression of interest to the EBA Banking Stakeholder Group at the end of July, together with ESMA for the Securities and Markets Stakeholders Group, with the intention to create a reserve list of candidates to be potentially appointed to fill vacant positions to be left by current BSG members that would resign before the end of their mandate. The successful candidates to this call for candidates will be included in the remaining reserve list of BSG candidates, which will expire on 30 June 2024.

Agenda Item 5: Update on risks and vulnerabilities in the EU (B-Point)

17. The EBA staff from the Risk Analysis and Stress testing Unit presented the downside risks related to the economic outlook. He stressed that the recession risk is now around 30% with gas supply / price being key aspects, together with rising sovereign yields (in link to fragmentation concerns) and monetary policy tightening.
18. He noted that banks' Q1 trends show some contracting of capital and liquidity ratios, but both remaining on still elevated levels and providing room in case of a bleakening economic situation. He mentioned that the profitability is only slightly down YoY but that there are also some signs of deterioration in asset quality. Banks' IRRBB disclosures suggest that an increase in interest rates would have an overall positive impact on net interest income, but a negative impact on the economic value of equity.
19. The reference to the EBA IRRBB based analysis on the impact of rate rises was of particular interest to the BSG members. One member challenged the IRRBB GLs since deposits could only be considered with a maturity of up to 5 years. This would not fit to how it works for example

in France, where mortgages are usually set at fixed rates and (retail) deposits hardly move among financial institutions.

20. The BSG vice-chair expressed his concern regarding the capital markets, which are fully closed in the Euro zone, as no one was able to issue anything in the last months, except collateralized obligations. This issue represents a challenge towards refinancing of the MREL, which is compulsory.
21. The EBA chair intervened with a comment on the impact of interest rate on the banking sector, highlighting the fact that there is such uncertainty at this stage, because the market has been in a low interest environment for so long. It is not certain whether the patterns from over a decade ago of elasticity of deposits to a positive interest rate environment will replicate today.
22. Several BSG members raised the issue of variable versus fixed interest rates in mortgages. In some Member States where variable rate mortgages dominate (especially non-Euro), the costs of loans increased significantly. In other Member states, there are special measures taken which might pressure financial institutions to raise interest even more, like the proposal to ready a bank leavy on interests or raising of corporate tax only for banks. All this might also endanger the position of financial institutions going forward.
23. EBA staff reacted to the comments hinting to some measures, like the ones related to additional taxes on financial institutions, as being political decisions. Spain's decision on the 5% bank leavy on interest, much higher than previously discussed in the market in the weeks before, taking analysts by surprise, which immediately pointed to rising costs of equity across the board for the banks (because of political uncertainty). There are also discussions about different types of moratoria in Poland, Romania, Sweden, Denmark and other MS. Uncertainty for consumers is also rising, the issues do not only arise from higher mortgage rates, but also high uncertainties on the job market, and higher costs of living (mainly energy and food).

Agenda Item 6: EBA update on MiCA (A-point)

24. Experts from the Digital Finance Unit provided the BSG an update on MiCA following the provisional political agreement reached on 30 June 2022. EBA's current assumptions on the timeline are: (a) entry into force end-March 2023, (b) application of Titles III and IV (asset-referenced and e-money tokens) by end-March 2024, and (c) all other aspects by September 2024.
25. BSG members were also updated on the key tasks for the EBA, which are the supervision of issuers of significant asset-referenced and e-money tokens, the approximately 18 Level 2 mandates to be delivered within 12 months of entry into force and the EBA's broader ongoing work in relation to crypto-assets.
26. The BSG vice-chair asked if MiCA will be sufficient as regards consumer protection and if the remit of supervision also covers stable coins issued in Euros outside the EU, to which the EBA

staff answered that it does fall within the scope of MiCA if the so called “stable coin” (MiCA does not use the term ‘stablecoin’ – refers to E-money token (EMT) and Asset-referenced token (ART)) is marketed or offered to EU based customers and it will need to be issued by an entity established and authorised in the EU / credit institutions or e-money institutions. There is a broad geographic scope that allows MiCA to reach across and require that local establishment for the tokens to be made available to EU based consumers.

27. Other BSG members asked regarding the current state of MiCA and the timeline presented, how can EBA help to mitigate the risks for consumers until the regulation enters into force. The EBA expects to launch outreach events, publish a discussion paper, and of course consult on draft level 2 measures in 2023, while also continuously monitoring crypto-asset market developments via the Network on Crypto-assets and supporting competent authorities in developing a sound understanding of crypto-asset products, services and regulatory and supervisory issues in the transition to MiCA application.
28. It was noted from the BSG that there have been a rising number of reported scams and frauds in this space, however the EBA staff said that when it comes to enforcement, competent authorities are becoming increasingly active in investigating those reports. This was also observed a few years ago with the Initial Coin Offerings (ICO) phase, when the rise in popularity led to lots of reports of fraud, which led to consumer interest dropping off. This led to far less ICO as means of alternative capital raising lately. However, the media can be both friend and foe when it comes to informing customers.

Agenda Item 7: EBA Discussion Paper on the role of environmental risk in the prudential framework (B-Point)

29. The BSG members of WG 2 on Supervision, Governance, Accounting, Reporting and Disclosure have prepared a presentation summarizing the content of the EBA discussion paper (DP) on the role of environmental risk in the prudential framework. The DP focuses on environmental risks and impacts, and follows a risk-based approach, to ensure that prudential requirements reflect the underlying risks.
30. The DP was published on 2 May for a 3-month public consultation. On 17 June 2022, a public hearing was held during which the DP was presented and questions from the public were answered. The EBA will consider any feedback received through this public consultation before formulating policy recommendations in its final report on how best to ensure a risk-based prudential treatment of exposures associated with/subject to environmental/social objectives/impacts.
31. The head of the Economic and Risk Analysis Department is looking forward to receiving comments and responses on the many questions included in the Discussion Paper. The EBA is at the state where there are still many questions unanswered, mainly on how on how to handle

plaining of the forward-looking aspects of the environmental risks. The analysis indicates that the prudential framework already includes several mechanisms that can address new risk drivers (incl. internal models, external credit ratings and valuation practices for collaterals and financial instruments). In those parts of the framework which do not (yet) allow for sufficiently addressing environmental risks, targeted enhancements can be considered. Furthermore, the DP opens the discussion on the forward-looking nature of environmental risks.

32. Other BSG members agreed on the importance of separating the idiosyncratic risk and the systemic risk and they way to approach it is by looking at the double materiality and the Scope 3 emissions of the clients individually when making a credit risk decision. It is important to add this point in the credit committee (or a KWC process) and not only analyse the individual client, but also at the overall supply chain of that client and possibly use this opportunity to not only put pressure on the Scope 1 or Scope 3 emission of that corporate, but also his own sourcing. This cannot be made compulsory, but it would ensure that the corporate in question considers its entire supply chain when he makes sourcing decisions.
33. EBA staff agreed to the suggestion made by the BSG members, mentioning the importance of defining metrics that do not lead to overlaps and double counting. The scope would be to take the externalities into account and find a way to price them in a reasonable way.

Agenda item 8: BSG update on the increase of bank's fees (B-Point)

34. The BSG members from WG 3 collaboratively prepared a presentation on the increase of bank's fees, which highlights important points in relation to the increase and transparency of fees and charges and illustrates very clear examples in some Member States. Retail banking fees and charges remain on top of consumer complaints. In particular, the issue of rising fees, in many cases increases are considered disproportionate and opaque. In addition, in recent years, fee income has become significantly important for banks' return on equity.
35. To have a picture of how the fees and charges have increased, some data was compiled for selected Member States from consumer associations and NCAs, relative to most widely charged fees – account maintenance, provision of cards, credit transfers, and cash deposits. Some economic indicators were selected to compare the evolution. The presentation points to the need for transparency, proportionality and fairness in fees and charges; and a gap with regards to the definition of "service".
36. EBA staff welcomed the BSG presentation on the increase of bank's fees, which highlights important points in relation to the increase and transparency of fees and charges and illustrates very clear examples in some Member States. The topic of fees and charges is very important and it has been part of regulatory and supervisory priorities for several EU jurisdictions since 2018. The EBA Consumer Trends Report 2020/21 identified 'Fees and charges' as one of the most significant detrimental issues for consumers, in particular, lack of transparency, mischarged fees, excessively high fees and impact on financially vulnerable consumers.

37. The very recent EBA response to the European Commission Call for advice on the Mortgage Credit Directive review, the EBA proposed revision of the provisions related to information disclosure, so that consumers have more clarity on the costs (fees and charges) that mortgages will have during the lifecycle of the contract.
38. Other BSG members pointed out about particular cases in Member States where there is campaign for raising awareness of the customers on financial institutions raising the fees. On the issue of the impact arising from the interest rate hikes on variable mortgage loans, a member commented that the EBA should provide its vulnerability assessment a more granular analysis distinguishing the fixed versus variable loans, as these differences are key both for the clients and the impact on the bank's P&L and risks.
39. BSG members representing consumers invited industry representatives to indicate the drivers for the increase of fees and charges, taking into account that the economic indicators assessed in the presentation would not suggest so. BSG industry representatives informed they will follow-up and provide more information.

Agenda item 9: Establishment and operationalisation of intermediate EU parent undertaking (B-Point)

40. EBA staff prepared a presentation on the establishment and operationalisation of intermediate EU parent undertaking (IPU). In accordance with Article 21b CRD, credit institutions and investment firms belonging to third-country groups (TCG) are required to have an intermediate EU parent undertaking (IPU) where the total value of assets of the TCG in the Union is equal to or greater than EUR 40 billion.
41. The EBA has developed Guidelines last year on the calculation methodology of the 40 billion threshold and templates for the reporting of the total values of assets from the competent authorities to the EBA in pursuant to the CRD requirements. In view of the deadline for the set-up of the first IPUs, i.e. 30 December 2023, the EBA has identified other issues worth of clarification, in particular about the process, the assessment methodology and the operationalization requirements to ensure sound and prudent management and avoid empty shells.
42. BSG members commented that one of the keys in this regard is the coordination with third country home authorities (exchange of information, colleges of supervision). It was acknowledged that the level 1 text is not very clear and the EBA's work in this field is essential for a level playing field standpoint. A worrying aspect was raised regarding the European Commission proposing article 21c, which removes the capacity for some banks to access the European market without local presence.
43. EBA staff replied stating that indeed the EBA is very committed to strengthening cooperation with third countries and has already developed templates with competent authorities, covering all the major jurisdictions, in order to ensure exchange of information, including the

assessment of confidentiality. With regard to the competitive aspect, it is being taken into account by the EBA and with regard to legislative amendments, EBA staff still working on a range of potential tools to address the impact of the COM proposal (Article 21c).

44. The EBA chair, in his closing remarks, stated that, as the EBA colleagues mentioned, the topic arising from the COM proposal is carefully monitored to maintain internal markets on a level playing field. He is convinced the COM is also taking into accounts all the aspects that may influence the EU market and include the work in the upcoming CRR3 / CRD6.

Agenda item: AoB

N/A

Participants of the Banking Stakeholder Group meeting 13 July 2022¹

Annex 1: Attendance list, by constituency

Attending

Patricia	Suárez Ramírez	ASUFIN	Consumers
Jennifer	Long	International Monetary Fund	Consumers
Monica	Calu	Asociația Consumatori Uniti/Consumatorii Uniti	Consumers
Tomas	Kybartas	The Alliance of Lithuanian consumer organisations	Consumers
Vinay	Pranjivan	Associação Portuguesa para a Defesa do Consumidor	Consumers
Martin	Schmalzried	Confederation of Family Organisations in the EU	Consumers
Christian	Stiefmueller	Finance Watch AISBL	Consumers
Andrea	Sità	UILCA Italian Labor Union - credit and insurance sector	Employees' representatives of FI
Leonhard	Regneri	Input Consulting gGmbH	Employees' representatives of FI
María	Ruiz de Velasco Camiño	SIBS	Financial institutions
Julia	Kriz	Raiffeisen bank International AG	Financial institutions
Christian	König	Association of private Bausparkassen	Financial institutions
Eduardo	Avila Zaragoza	BBVA Group	Financial institutions
Johanna	Orth	Swedbank	Financial institutions
Véronique	Ormezzano	BNP Paribas	Financial institutions
Johanna	Lybeck Lilja	Nordea Bank	Financial institutions
Erik	De Gunst	ABN AMRO Bank	Financial institutions
Sébastien	De Brouwer	European Banking Federation	Financial institutions
Wolfgang	Gerken		Financial institutions
Sebastian	Stodulka	Erste Group Bank AG	Financial institutions
Elie	Beyrouthy	European Payment Institutions Federation	Financial institutions
Yuri Che	Scarra	USB Europe SE	Financial institutions
Constantinos	Avgoustou		SMEs
Rym	Ayadi	City University of London, Business School and CEPS	Top-ranking academics
Monika	Marcinkowska	University of Lodz	Top-ranking academics
Concetta	Brescia Morra	University Roma Tre	Top-ranking academics
Edgar	Löw	Frankfurt School of Finance & Management	Top-ranking academics
Alin Eugen	Iacob	Association of Romanian Financial Services Users	Users of Banking Services
Poul	Kjær	Copenhagen Business School	Users of Banking Services



Rens

Van Tilburg

Sustainable Finance Lab

Users of Banking Services

EBA

Chair

Jose Manuel Campa

Heads of Unit

Philippe Allard; Dorota Siwek

EBA experts

Tea Eger

Mihnea Sarca

Andreas Pfeill

Elisabeth Noble

Lievijne Neuteboom

Antonio Barzachki

Anna Gardella

For the Banking Stakeholder Group

Done at Paris on 30 September 2022

José Manuel Campa

EBA Chair