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| EBA BSG 2023 007 |
| Banking Stakeholder Group |
| 2 February 2023 |
| Location: EBA premises - Paris |
| EBA Regular Use |

# Banking Stakeholder Group 2 February 2023 – Minutes

## Agenda item 1: Welcome and approval of the agenda

1. The BSG Chairperson asked the BSG members whether there were any comments on the draft agenda. There were no comments on the agenda.

2. The BSG Chairperson asked the BSG members to approve the minutes of the 13 December BSG meetings. The minutes have been approved and will be published.

### Conclusion

3. The BSG approved the minutes and the agenda of the meeting.

## Agenda item 2: BSG update on the latest developments

4. The BSG Chairperson provided an update on the work done by the Group members since the December meeting, with the objective to follow the 2023 EBA work programme to align the BSG input with it.

5. She also mentioned that work is still in progress on a COP27 follow-up statement and on the BSG Response to the EBA CP on the GLs on Resolvability Testing (WG 1B - Recovery and Resolution).

6. The floor was given to the BSG Working Group coordinators. On Capital and Liquidity (Working Group 1A) the coordinators explained that they have finalised their report on Basel 3, prepared as a follow-up to the January 2022 workshop organised on that topic. After an agreement is

reached on the final version, the report will be published in the BSG section of the EBA website[1].

7. The BSG members of WG 2 (Supervision, Governance, Accounting, Reporting and Disclosure) are preparing their contribution to the ESAs' call for advice on greenwashing.

8. Members of WG 4 (Payments, Digital, Fintech and Regtech) are finalising an own initiative paper on DORA which main aspects are presented in Item 7 at the present meeting. They are also preparing an input on two CP on MiCA RTS on the acquisition of qualifying holdings and on applications for authorisation to issue asset-reference tokens (ARTs).

9. The WG 6 on (AML / CFT) prepared the views on the EBA public consultation regarding *the Guidelines on the effective management of money laundering and terrorist financing risks when providing access to financial services*, which will be presented in Item 6.

## Agenda item 3: EBA update on general developments

10. The EBA Chairperson highlighted some of the major developments since the 13 December meeting.

11. He mentioned the publication of the *EBA roadmap on sustainable finance* 13 December 2022. The roadmap explains the EBA's sequenced and comprehensive approach over the next three years to integrate ESG risks considerations in the banking framework and support the EU's efforts to achieve the transition to a more sustainable economy. He also underlined that the EBA will also work on a *climate related stress test*, together with the other ESAs.

12. Further, he noted that the EBA BoS has approved the expanded BSG reserve list in January and from now on the EBA will draw on this updated list to replace BSG members that would terminate their mandate before June 2024.

13. He reminded BSG members that the EBA published a *thematic review on the transparency and level of fees and charges levied by financial institutions (FIs) on the retail banking products in the EU*. Overall, the review finds that fees and charges vary greatly in terms of level and type not only across the European Union (EU) market, but also across FIs within the same jurisdiction.

14. The EBA Chairperson then mentioned the publication of the *closure report of Covid-19 measures*, which provides an overview of the wide range of policy measures taken on the back of the pandemic, their state of play and the path out of policy support. Although the EU banking system proved overall resilient, the ample support provided does not give room to

[1] The report was published on 1/03/2023

complacency, and the framework is to be further strengthened with a loyal and prompt implementation of Basel III.

15. He then gave an update on the EBA'S work on the *annual quantitative Report on minimum requirement for own funds and eligible liabilities (MREL)* with data as of December 2021. This report is complemented by an analysis looking into the impact of the MREL framework on a number of relevant dimensions. As of 31 December 2021, the EBA estimated that 70 banks reported an MREL shortfall of EUR 33bn out of a sample of 245. This is down by 42% compared to last years' quantitative report on MREL on a comparable basis.

16. He then informed BSG members that the EBA published its *report on high earners for 2021*. The analysis shows a significant increase of the number of individuals working for EU banks and investment firms who received a remuneration of more than EUR 1 million.

17. He also noted that the EBA has published on 26 January an *Opinion on the draft European Sustainability Reporting Standards (ESRS)* developed by the European Financial Reporting Advisory Group (EFRAG). In this Opinion, addressed to the European Commission, the EBA acknowledges that, overall, the draft ESRS are consistent with international standards and any other relevant EU Regulation.

18. One BSG member commented about the *high earners report* to underline that given the recent increase of bank's income, we should observe an even greater number of high earners in 2022. He then asked whether the 2022 report could highlight correlations between the number (or volume of their income) of top bank earners and rising interest rates. The EBA Chairperson replied that from the EBA's perspective, this topic is not as much about the level of compensation, but more about the structure (fixed vs variable part) of compensation, which should be consistent with the risk management practices of the bank.

19. Another BSG member remarked that the EU is not a closed economy and that the increase of high earners in 2021 is probably the result of a move of the beneficiaries from the UK to the EU. The EBA Chairperson replied that the impact of Brexit and the fact that there was a movement of executives coming out of UK into the EU (including the non-EU banks presence in Europe) may indeed be the key explanation of this increase.

20. Several other BSG members asked about EBA's opinion on the EFRAG standards, whether it was already issued or is about to be issued. The EBA Chairperson replied that the opinion was issued on 26 January and that the EBA is an active participant in EFRAG.

## Agenda item 4: Update on risks and vulnerabilities in the EU (B-Point)

21. EBA staff from the Economic and Risk Analysis Department presented a brief overview of the drivers affecting the main risk areas over a 6–12-month horizon, with the main areas of concern being liquidity risk, IT related risks and credit risk for household exposures. Macroeconomic forecasts remain bleak but no further downward revisions are observed. Some lead macroeconomic indicators are improving, albeit from very low levels.

22. The presentation also pointed to a slightly declining trend in capital and liquidity ratios, although they remain high. The LCR is expected to decline further amid TLTRO repayments. Volatility might affect primary market activity. Nonetheless the first two weeks of January saw extraordinarily increased activity. Lending to large corporates was the main driver of lending growth in Q3. On the contrary, lending to households was flat.

23. The NPL ratio slightly improved in Q3 but the share of stage 2 loans remained elevated. The NPL ratio for some segments such as SME or consumer credit increased slightly in Q3. Profitability remained rather strong on the back of rising NII. Going forward, banks and analysts are overall optimistic. Nonetheless, the impact of rising rates on household and NFC margins is heterogeneous across countries. Banks in countries like Poland and Romania appeared to have benefited the most while those in Greece, Bulgaria or Latvia reported declines in both household and NFC lending-deposit margins.

24. Some BSG members raised concerns about the increasing concentration in their national banking systems, which may result in less transparent fee structures. EBA staff replied that competition aspects should be safeguarded by competition authorities and also pointed that banks' market power should not only be measured in terms of concentration indices. The EBA Chairperson added that the EBA's role was to ensure that the banks that remain in the market are the best ones.

25. A BSG member questioned the EBA stance on mergers as a measure to increase profitability, as expressed in previous years. EBA staff replied that synergies derived from mergers and acquisitions might have been a good way to increase profitability.

26. A member asked about the EBA views on the reclassifications of fair value exposures to amortised cost. EBA staff answered that over the past few years, the share of sovereign exposures at amortised costs has increased whereas fair value ones have declined. Nonetheless, as long as there is no arbitrage of accounting rules, this is not a reason for concern.

27. Another member depicted a rather optimistic outlook for asset quality given the low NPL ratios, decreasing energy prices and high employment levels, among other factors.

28. One member recalled that banks' price to book values were still below 1, meaning that banks were not covering their cost of equity. She asked for a deeper look into the drivers of cost of equity for banks.

29. Another BSG member noted the missing geopolitical risk in the overall risk assessment. She also was concerned about banks leading their customers towards money market funds. The EBA Economic and Risk Analysis Unit (ERA) Director reacted to explain that following the Great Financial Crisis, money market funds have been properly regulated and are not a source of concern nowadays.

## Agenda Item 5: EBA presentation on the methodology and overall exercise for the 2023 Stress Test (B-Point)

30. EBA staff from Economic and Risk Analysis (ERA) Unit reminded that the EBA launched the 2023 exercise 2 days before the BSG meeting and revealed this year's scenario. The main features of the methodology, including the main enhancements compared to 2021. He explained that the emphasis of this exercise will be on the enlargement of the sample and introduction of additional proportionality, credit risk decomposition by economic sectors, the introduction of NFCI top-down model as the first step of the hybrid approach and the increase of realism with the adjustment of pass-through.

31. The adverse scenario reflects an aggravation of geopolitical tensions leading to stagflation. Cumulative GDP EU27 are 6% below at end-2022 level and 9.8% below baseline at the end of the horizon. Economic slowdown leads to a cumulative increase of the EU27 unemployment rate amounting to 12.2% at the end of 2025. Accordingly, economic activity in other major regions is affected materially.

32. Besides the GDP decline and the increase of unemployment the most important shocks of the adverse scenario would lead to a notably increasing Harmonised Index of Consumer Prices (HICP) in the EU, with the adverse level being 6.2 p.p. higher than the baseline level in 2025, while average yearly increase in the adverse scenario stands at around 6.6%. Hence, prices rise by 19.9% in the next 3 years.

33. The EBA ERA Director added that this exercise is run in a very different macroeconomic context compared to the previous ones, which have been mainly focused on post-crisis, low rates, whereas the 2023 exercise is trying to match the new and more complicated future including political aspects, high rates and the adjustments included in the risk presentation. At a more substructural level, he explained that the EBA is moving forward toward a top-down model-based stress testing, rather than relying on the banks' own models, which represents a gradual strategic change from a regulatory and a supervisory standpoint. At some point in the future, the EBA will also be looking at a climate stress test, but that will be a separate exercise, with a different timeline.

34. Another BSG member underlined that the stress test scenario is qualitatively different, due to the shift toward a different monetary and macroeconomic environment, leading to uncertainty about the outcome. She stressed that it is critical in this regard to make sure there are no unintended consequences when the banks apply this scenario on their balance sheets and to make sure the top-down approach is relevant and therefore risk sensitive on the standardised approach for RWA. She noted that applying NPL shortfalls on a static balance sheet is problematic as no recovery can be incorporated, which represents a totally one-sided approach to NPLs and an unnecessary conservative approach in an overall stress test. Lastly, she requested EBA views regarding the link between the stress test outcome and the pillar 2 guidance (P2G).

35. EBA staff explained that the impact of the stress test result on the P2G was explained by EU supervisors who rely on the SREP Guidelines

36. Several BSG members commented on the topic of management overlays, saying that the ECB expressed serious concerns on how to deal in practice with the different kinds of overlays concerning COVID19, Russia invading Ukraine, the energy crisis, etc. These need to be well distinguished, as putting them all in one basket makes it hard to distinguish the figures. The documentation on these overlays is key for the auditors and it would also help the shareholders to see an explanation on management overlays in the annual report.

37. The BSG Chair asked two questions, one whether data about cyber-risk / cyber-attacks will also be taken into account and the second on the sample of banks in the stress test, which rose from 50 to 70 banks which she considers still a small sample. EBA staff replied that 70 banks is actually a substantial number since these banks are the largest and systemic ones of the EU, covering more than 70% of the assets of the EU in general and each jurisdiction individually. He also explained that the actual sample is disclosed in the stress test methodology, annex 1.

38. On the cyber related issues, EBA staff explained that they are currently captured as part of other operational risk. Rather than looking at the losses, the focus is more on the operation level, whether the banks are prepared or not to handle cyber-risk. This is also not an EBA only effort, there are many other actors from the government sector (authorities and agencies) involved in ensuring cyber stability.

## Agenda Item 6: BSG views on the public consultation on the new Guidelines on the effective management of money laundering and terrorist financing (ML/TF) risks when providing access to financial services (B-Point)

39. Following the approval of the AMLSC and BoS, the EBA launched the public consultation on the guidelines in December 2022. A public hearing was held on the 10 of January. The public

consultation will close on the 6 of February and the EBA welcomes BSG input in that context. The publication of the final report is foreseen in Q1, 2023.

40. BSG members almost finalised the response to EBA's consultation on the new Guidelines and will be submitted shortly after the meeting. A number of topics were discussed in previous meetings on topics that have arisen from the *EBA's call for evidence and opinion on de-risking*, which is also the bases of the BSG report. The WG coordinator welcomed this further EBA consultation and agreed with the chosen scope, mainly the clarified interactions under the Payment Accounts Directive (PAD) for 'accidental Americans' and the fact that it does not cover customers that are payment institutions (PI).

41. A very welcomed topic by the BSG was also EBA's efforts to also include an annex dedicated to non-profit organizations (NPOs) that aims to clarify the factors credit and financial institutions should consider when assessing the ML/TF risks associated with a business relationship with customers that are NPOs. BSG members also urged the EBA to follow up on the peer review findings on the AML, as it looks like a good way of building confidence and helps increase the justifiable confidence in the payment institution sector.

42. EBA staff clarified the point regarding the competent authority outreach, saying that the guidelines are primarily addressed to financial institutions and to competent authorities at the same time. In this context, it also covers the competent authority outreach to NPOs (shown the report annexed to the opinion on de-risking). The EBA has finalised new guidelines to tackle unwarranted de-risking, which comprise: (1) the addition, in the existing EBA's ML/TF Risk Factors Guidelines, of an annex focusing on customers that are Not-for-Profit Organisations and (2) a new set of guidelines addressing the issue of effective ML/TF risk management and access to financial services in a broader sense. An opportunity to provide comments on an earlier draft of the guidelines was provided to the BSG in November.

## Agenda Item 7: BSG own initiative paper on DORA (B Point)

43. In January 2023, the EBA team working on DORA had a preparatory call with the BSG sub-group preparing the own-initiative paper on DORA and exchanged views on a number of areas raised by BSG members. This has also served as a prep-call for the present meeting and added valuable information toward the finalisation of the BSG own initiative paper on DORA.

44. The BSG paper will focus on three main objectives:

(i) providing early advice and recommendations to the EBA (and ESAs) on the macro challenges. The ESAs have been tasked with 16 new mandates to issue technical standards and reports within the next 12-18 months;

(ii) stakeholder engagement with other stakeholder groups in the other ESAs, as DORA as a broader scope, if applies to FI – banks, insurance companies, investment firms, pension funds and also to ICT service providers;

(iii) supporting the EBA in the preparation for level 2 and 3 work.

45. The BSG paper also reminds that the purpose of DORA is to put in place a comprehensive framework on digital operational resilience for EU financial entities and to consolidate and upgrade the ICT risk requirements that have so far been spread over the financial services legislation (e.g. CRD, PSD2, MiFID etc.). It essentially aims to highlight the importance of ICT risk by distilling it from the financial risks, noting the need for a comprehensive assessment (not focusing only on traditional quantitative approaches)

46. EBA staff welcomed the own initiative paper on DORA, which aims to provide some early industry views to the ESAs and maintain the engagement on this significant file. The ESAs are given new roles and responsibilities via this new regulation striving for a comprehensive framework on digital operational resilience for the EU financial entities.

47. The Head of Digital Finance Unit leading the work on DORA, both for policy and the preparation of oversight, thanked the BSG team for the provided highlights, which gives an indication of early industry feedback. She noted that DORA could be a game changer as it covers a wide scope of financial entities (almost the entire financial sector) and for the first time all provisions addressing digital risk in the financial sector are brought together in a consistent manner in one legislation. She reminded that DORA has entered into force on 16 January 2023, with an implementation period of 2 years. Therefore, DORA will apply from 17 January 2025. Within these two years, the ESAs would need to deliver: 12 policy mandates (eight Regulatory Technical Standards (RTS); two Implementing Technical Standards (ITS), and two sets of Guidelines), the call for advice from the European Commission on the criticality criteria for critical ICT third-party providers (CTPPs) and the oversight fees, a feasibility report on further centralising ICT-related incident reporting (single EU Hub).

48. The EBA Chairperson added that on the coordination aspect, that the is strong commitment from all the ESAs to prepare over the 2 years period an EU- systemic cyber incident coordination framework and for their new responsibilities, including their role as Lead Overseers of CTPPs. For the development of the various mandates, the ESAs have established a new sub-committee on Digital Operational Resilience under the Joint Committee. This will enable the wider coordination among the different EU authorities (as envisaged by DORA) as all EU competent authorities across the financial sector are members along with ENISA, ESRB, SRB and the European Commission.

49. The EBA executive director also stressed the importance of the cooperation between the three ESAs, to make sure that they join forces, be transparent, share with the industry their thoughts and fist approaches. Regarding the engagement with third countries, the ESAs have been frequently approached by private sector firms, mostly from the USA, and communication channels have been opened.

50. Several BSG members expressed their support for the work on the assessment of the feasibility of setting up a single EU Hub for ICT-related incident reports. They explained that the prospect of having a single reporting point is a game changer and they recommended that the EUR Hub work is fast-tracked. The Head of the Digital Finance Unit confirmed that this feasibility report is a priority.

## Agenda item 8: EBA Consultation Paper on resolvability testing guidelines (B-Point)

51. EBA staff from the Prudential Regulation and Supervisory Policy (PRSP) Unit presented the draft guidelines on resolvability testing under consultation explaining in particular that the guidelines aim to frame how resolution authorities and banks should move from the policy implementation phase to the testing phase.

52. BSG members thanked EBA for the work and welcomed the initiative but raised some questions in particular with regard to: (i) the responsibilities in resolution between supervisory and resolution authorities and the bank, (ii) the need for more information from authorities, (iii) the need to insist on cross border coordination and (iv) the frequency.

53. On the responsibilities between supervisory, resolution authorities and banks it was clarified that the level one text was very clear and the guidelines did not change anything to the split of responsibilities. Instead, they aim to ensure the input from the bank into the resolution planning effort via the self-assessment and ensure the clear understanding by the banks and their senior management of its role in resolution. While decisions will be taken by the resolution authority, the bank will be in charge or implementing them.

54. On the need for more information from authorities, EBA staff mentioned the fact that authorities are required under BRRD to provide a summary the key element of the resolution plan to the Bank, key element that are listed in the EBA ITS on resolution planning. Members were encouraged to confirm whether they were missing information from authorities or needed additional information on top of what current legislation requires.

55. Regarding the need to consider the cross-border coordination EBA staff indicated that resolution colleges were placed to ensure such coordination but agreed that those should focus on simulation and war games to effectively test their readiness and the credibility of their arrangements.

56. On the frequency of the self-assessment, EBA staff agreed that a lower frequency could be considered for the self-assessment, in particular to allow for resolution authorities to assess and banks to remediate.

Participants of the Banking Stakeholder Group meeting 2 February 2023[2]

# Annex 1: Attendance list

## Attending

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| Sebastian | Stodulka | Erste Group Bank AG |
| Martin | Schmalzried | COFACE-Families Europe |
| Veronique | Ormezzano | VYGE Consulting |
| Edgar | Loew | Frankfurt School of Finance and Management gGmbH |
| Leonhard | Regneri | Input Consulting gGmbH |
| Wolfgang | Gerken | J.P. Morgan SE |
| Jennifer | Long | BSG consumer representative |
| Concetta | Brescia Morra | University Roma Tre |
| Monika | Marcinkowska | University of Lodz |
| Maria Ruiz de Velasco | Ruiz de Velasco | RegGenome |
| Alin | Iacob | AURSF (Association of Romanian Financial Services Users) |
| Monica | Calu | Asociatia Consumers United/Consumatorii Uniti |
| Patricia | Suarez Ramirez | ASUFIN |
| Rym | Ayadi | City University of London, Business School and CEPS |
| Elie | Beyrouthy | European Payment Institutions Federation |
| Julia | Strau | Raiffeisen bank International AG |
| Christian | König | Association of private Bausparkassen |
| Rens | Van Tilburg | Sustainable Finance Lab |
| Eduardo | Avila Zaragoza | BBVA Group |
| Sėbastien | De Brouwer | European Banking Federation |
| Johanna | Orth | Skandinaviska Enskilda Banken (SEB) |
| Andrea | Sità | UILCA Italian Labor Union - credit and insurance sector |
| Christian | Stiefmueller | Finance Watch AISBL |

**EBA**

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| Chair | Jose Manuel Campa |
| Executive Director | Francois-Louis Michaud |

**Heads of Unit**

Philippe Allard;
Angel Monzon;
Jacob Gyntelberg;
Ruta Merkeviciute;
Carolin Gardner.

**EBA experts**

Mihnea Sarca;
Juan Garcia;
Dragan Crnogorac;
Thibault Godbillon;
Andreas Papaetis;
Amandine Scherrer.

For the Banking Stakeholder Group

Done at Paris on 2 February 2023

José Manuel Campa

EBA Chair