EBA BSG 2023 013
Banking Stakeholder Group
21 April 2023
Location: teleconference
EBA Regular Use

Banking Stakeholder Group 21 April 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 2 February 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 welcomed Lidwin van Velden, new BSG member representing financial institutions and invited her to indicate which working group she would like to join. Ms van Velden introduced herself as the CEO of the NWB Bank in the Netherlands and the president of the European Association of Public Banks

5. The BSG Chairperson then updated on how the Group continued its work in full alignment with the EBA 2023 work plan. After the last BSG meeting, the main focus has remained on DORA, on the topic of which the Group also produced an own initiative paper, which has been published on the EBA website. She also mentioned further work on an own initiative paper regarding the cost of capital following the discussion with the BoS at the last BoS-BSG meeting, a response to two consultation papers on MiCA (RTS acquisitions of qualifying holdings (QH) and RTS information to be submitted in an application for authorisation to issue ARTs) and also a response to the ESAs proposals of the amendment to extend and simplify sustainability disclosures.

6. WG 1A, on Capital and Liquidity, mentioned they are looking forward to the upcoming work in the context of the CRR3 and to the collaboration with WG 2 on stress test, possibly leveraging on the upcoming publication of the stress test results in July.

7. WG 2, on Supervision, Governance, Accounting, Reporting and Disclosure, is working on a paper on the draft joint guidelines on the system established by the European supervisory authorities for the exchange of information which are relevant to the assessment of the fitness and propriety of holders of qualifying holdings.

8. WG 4, on Payments, Digital, Fintech and Regtech, are looking forward to the work on MiCA, now approved by the EU Parliament, and stand ready to comment on the upcoming consultations from the EBA.

Agenda item 3: EBA update on general developments

9. The EBA Chairperson highlighted some of the major developments since the 2 February meeting.

10. He noted that the EBA published revised guidelines on deposit guarantee schemes (DGS) contributions, which further strengthened the link between the riskiness of a credit institution and how much it needs to contribute to the DGS funds that will be used to reimburse depositors in case their bank fails. The revised guidelines harmonised the methodology for the DGS to collect contributions from credit institutions in proportion to their riskiness.

11. He then gave an update on the publication in March 2023 of a joint statement by the ESAs and the European Central Bank (ECB) on climate-related disclosure for structured finance products. The statement encouraged the development of disclosure standards for securitized assets through harmonized climate-related data requirements.

12. He then informed BSG members that the EBA published a report on diversity practices and the gender pay gap at the level of the management body. The report highlighted that only 18.05% of executive directors are female, and that women earn on average 9.48% less than male executive directors and 5.90% less than male non-executive directors.

13. Additionally, he mentioned that the EBA launched a public consultation on its draft Implementing Technical Standards (ITS) amending the ITS on specific reporting requirements on market risks (FRTB reporting), aiming at providing supervisors with the necessary tools to monitor these risks.

14. He also noted that the EBA released guidelines aimed at ensuring customers have access to financial services without being denied on unsubstantiated AML/CFT grounds or without valid reason. The guidelines aim to foster a common understanding among institutions and AML/CFT supervisors of effective ML/TF risk management practices in situations where access

to financial products and services should be safeguarded, particularly for vulnerable individuals.

15. There were no questions or comments from the Group.

Agenda item 4: Update on risks and vulnerabilities (B-Point)

16. EBA staff from the Economic and Risk Analysis Department presented a brief overview of the drivers affecting the main risk areas. Looking at the financial markets data, the presentation compared the impact of the financial crisis on share prices in the US and EU, highlighting that the US market was hit harder. Small banks in the US were more affected than big banks. Certain financial instruments have recovered well, except for subordinated attacks like AT1s. The recovery was supported by the Credit Suisse case and clarification from regulatory bodies (EBA, SRB, ECB), which was welcomed by financial markets.

17. The presentation mentioned the recovery in spreads but noted that they are still elevated. Q4 results were summarized, with expectations of similar trends in Q1. Capital buffers remained high, return on equity was positive, and net interest margin had improved due to interest rate rises. However, lending growth had slowed, except for commercial real estate. NFCs and household loans had contracted, possibly influenced by higher rates, lower consumer confidence and high energy prices. Lending standards had tightened, and the pressure on loans appeared to come from both supply and demand factors.

18. It was observed that non-performing loans (NPLs) had reached a bottom point. In Q4, the NPL ratio remained at 1.8%. However, the stage two ratio, which represents loans at a higher risk of default, was still elevated, standing at 9.4% in Q4, a year-on-year increase of 50 basis points but a slight decrease from the previous quarter. In 2022, there were net flows of over 200 billion from stage one to stage two, indicating significant inflows into stage two loans. This turnover suggested that these were not residual effects of the COVID crisis, but rather new exposures being classified as stage two loans. The cost of risk remained relatively low, slightly below the long-term average at 46 basis points. Commercial real estate is now a focus area, drawing attention for several quarters. Analyst reports have increasingly covered potential risks and exposures in this sector due to rising rates, which impact valuations and borrowing capacity. It was underlined that the pressure on commercial real estate is not unique to the EU, as it has also been observed in the US.. Real estate stocks, particularly, have faced pressure, indicating elevated risk, although this is not a new concern.

19. EBA staff also analyzed the impact of the SVB failure on banks, particularly regarding loans and bonds. Bonds made up around 11% of total assets for EU EA banks, with a significant portion held at amortized cost. Banks have faced pressure from equity movements and fair value through P&L exposures, leading them to hold bonds at amortized cost. Calculations showed a manageable impact of around 120 bps on average. However, mid-sized banks experienced an impact of over 300 bps.

20. Several BSG members also brought forward presentations on the lessons learned from the SVB and Credit Suisse cases. The presentation on Credit Suisse highlighted the decline in profits over the past three years, including substantial losses related to the Archegos and Greensill Capital debacles. It raised questions about the bank's approach to risk management, capital conservation, and handling of investor funds. Despite solid capital ratios and liquidity coverage initially, there were signs of major trouble in Q4 2022.

21. The presentation outlined the need to address impediments to resolvability and reconsider existing frameworks for G-SIBs and large mid-cap banks.

22. The presentation on SVB underlined two main reasons for the failure of SVB stressed by the Fed: the lack of appropriate management of interest rate risk and liquidity risk. Moreover, SVB benefited from a regulatory framework that was too slow to capture the bank's growth, SVB being not subject to certain stress tests, interest rate risk management requirements, and leverage ratio limits.

23. . Overall, the presentation from the BSG highlighted the mismanagement of SVB, shortcomings in regulatory oversight, and the need for improvements in risk management and supervision of banks in the US.

24. Another concern expressed by BSG members was the buffer of eligible liabilities which should be utilized to address banking crises and the liquidity profile of European banks, acknowledging the fact that liquidity coverage ratios alone cannot address a bank run. Despite progress in estimating liquidity needs and mobilizing collaterals, the recent crises revealed that existing preparations for liquidity buffers may not be sufficient. Therefore, it was suggested to reconsider the legal framework for emergency liquidity assistance, also known as lender of last resort function. Regarding bail-in, it was acknowledged that the tool remains essential for protecting taxpayers' interests. However, it was suggested to explore the discretionary application of bail-in tools, considering the Credit Suisse case and the unconventional resolution process. Drawing lessons from the US experience, the concept of least cost principles was mentioned, where public interventions are backed by the deposit insurance fund, ultimately financed by the private sector. The possibility of making the rules regarding bail-in less rigid without compromising the principle of burden-sharing by the private sector was also mentioned by BSG members. Nonetheless, concerns were raised about the potential impact on legal certainty and capital market stability.

25. Finally, a BSG member presented various aspects of accounting practices related to interest rate risk and hedging in the banking industry, highlighting the connection between amortized cost, book value, fair value, and liabilities in financial statements. He mentioned that the decrease in asset value due to a shift in interest rates is not typically shown in the profit or loss statement, as it is considered interest rate risk rather than default risk and also referred to the financial crisis and discussions surrounding the topic, comparing Silicon Valley Bank to Credit Suisse in terms of their handling of interest rate issues.

26. The EBA Chairperson made comments focusing on three main aspects. First, he noted that there were minimal direct linkages and no significant contagion to EU banks. The second aspect focused on providing confidence and clarity on sensitive issues, emphasizing on the intensive monitoring of fixed income portfolios in banks as potential vulnerability, with more information expected to be reported during the stress tests. He cautioned against drawing early conclusions and emphasized the importance of implementing existing regulations effectively, rather than focusing on regulatory changes. The speed of deposit withdrawals was identified as a significant lesson, as it could pose a threat to bank stability. Additionally, the Chairperson mentioned the need to assess the interaction between the banking sector and the crypto and digital world, especially in relation to regulatory policies and the implementation of MiCA. Regarding the Credit Suisse case, the Chairperson stressed the need for careful assessment and cautioned against extrapolating conclusions from the Swiss legal framework to other contexts. He also emphasized the importance of focusing on Europe's own issues and not being distracted by recent events in the US or Switzerland. The Chairperson expressed the view that resolving globally systemic financial institutions is always a challenging task, acknowledging the difficulties faced by Swiss authorities in their handling of the Credit Suisse situation while reiterating the importance of adhering to basic principles and avoiding the use of taxpayer money.

27. BSG members discussed various aspects related to these recent banking failures, including mismanagement, accountability, regulatory frameworks, liquidity resolution, media influence, and the role of shareholders. They offered insights and suggestions on how to address these issues and prevent similar crises. Firstly, they emphasized the importance of distinguishing between liquidity and solvency issues, stating that liquidity problems often serve as early indicators of solvency problems. They highlighted the pattern seen in silent runs, such as the cases of Lehman Brothers and Credit Suisse, where prolonged liquidity issues eventually eroded the capital position, leading to solvency concerns, suggesting that current recovery and resolution regimes primarily focus on capital ratios and regulatory requirements, neglecting the crucial role of liquidity. They proposed the inclusion of liquidity considerations in early intervention measures and failing or likely to fail definitions. Secondly, they discussed the use of resolution funding and the complexity surrounding it. They mentioned the underlying political consensus established in 2014, known as the 8% threshold, which aimed to determine risk sharing between the public and private sectors and expressed concerns that recent proposals are eroding this 8% threshold, shifting the burden away from the private sector and towards public funds. Another particular issue stressed by one BSG member was the need to hold high-level executives accountable for their actions and the damages they cause, also raising concerns of them receiving large compensations while investors and creditors suffer losses.

28. The director of the Economic and Risk Analysis (ERA) Unit made several remarks regarding the lessons learned from the Credit Suisse case. Firstly, he mentioned that the Credit Suisse AT1 contract had an old clause that made it difficult to deviate from the actions taken by the Swiss authorities. He highlighted that modern AT1 contracts are designed differently and ensure that the sequence of events involves conversion into equity and treating AT1 holders similarly to

equity holders. The director also stressed that in EU resolution procedures, it has been clearly established that equity holders should bear losses before AT1 holders. This point was made to highlight the importance of understanding the hierarchy of losses in the resolution process. Furthermore, he mentioned that outside of resolution, there can be situations where a troubled bank does not reach resolution due to breaches of certain ratios that affect the rating agencies' assessment of the bank's AT1 instruments and highlighted the significance of rating agencies' involvement in the market discipline of AT1s and the role they play in the overall assessment of these instruments.

29. Lastly, the ERA director emphasized the need for international cooperation and enforcement at the global level, particularly for jurisdictions that are not aligned with the global framework.

Agenda Item 5: Peer review work programme – discussion on the possible update (B-Point)

30. EBA staff from Legal Services Unit approached the BSG to give an overview of how EBA's work on peer reviews has evolved and to also gain input from the BSG on shaping the work for 2025. Peer reviews are becoming increasingly more targeted with quicker turnaround times. The peer review reports are now producing tangible outputs with measures and best practices that are produced to add value to the areas reviewed and to also provide clear measures that can be reviewed in follow up reports.

31. A peer review assesses and compares the effectiveness of the supervisory activities and of the implementation of the provisions by competent authorities vis-à-vis those of their peers. The aim of the EBA in conducting peer reviews is to further strengthen consistency in supervisory outcomes and to facilitate the identification of supervisory best practices across competent authorities. Peer reviews can cover, among others, regulations, procedures, enforcement powers and practices. Follow-up measures may be adopted in the form of guidelines and recommendations. The purpose of peer reviews is to strengthen consistency and effectiveness of supervisory outputs. To that end the EBA now has an increased number of peer reviews per annum, sample-based peer reviews, focused reports with clear measures and a more strategic workplan.

32. There are four phases to a peer review: preparatory phase, committee development, questionnaire issuance and assessment, and follow-up report. The process aims to identify deficiencies and good practices, provide recommendations for improvement, and assess the implementation of follow-up actions. Recent changes have been introduced to make peer reviews more effective. The number of peer reviews has increased, and a sample-based approach is being explored to focus on specific competent authorities. The reports aim to present key findings, facts, and clear follow-up measures to enhance readability and understanding.

33. The BSG Vice-chair expressed his belief that peer review is a powerful tool and acknowledged its use within the SSM (Single Supervisory Mechanism). However, he raised a concern about the potential increased reporting burden for banks in relation to peer reviews. He also suggested that before designing templates or requesting additional information from banks, the existing reporting already provided by banks should be taken into account. Regarding the proposed topics for the peer review in 2024, the Vice-Chair highlighted the sustainability of the business model as a significant topic, particularly in light of recent events involving Silicon Valley Bank and Credit Suisse. He mentioned that he had already provided a substantial amount of information to the SSM on the digitalization of their strategy and suggested that this information could be shared as input for the peer review on the sustainability of the business model.

34. One BSG member mentioned the importance of assessing the Internal Ratings-Based Approach (IRBB) and its relevance in the current rate and monetary policy environment. He suggested that this assessment should be conducted in either 2024 or 2025, considering the monetary cycle. Another member expressed interest in examining the resilience of deposit guarantee schemes, particularly in light of the recent CMDI proposal by the European Commission, saying he believed it would be valuable to test the schemes' ability to handle increased usage in the future. Additionally, another member acknowledged the efforts to streamline the report but emphasized the importance of maintaining transparency and providing factual and analytical information to improve understanding of supervisory structures and practices. They suggested that including such information would contribute to stakeholder discussions. BSG members appreciated the overview provided by the presenters and found the suggested priorities for the peer review in 2024 to be aligned with their own thoughts.

35. In response to the comments, EBA staff noted the points raised about IRBB and stated that they would incorporate them into ongoing discussions regarding technical standards. Regarding the factual information, they clarified that the intention was not to eliminate facts but rather to avoid excessive detail about the different approaches taken by competent authorities, which could be time-consuming. They pointed out the importance of transparency in justifying conclusions about the adequacy of supervision and welcomed further suggestions for review topics. The BSG members were informed that their involvement in the current stage was an exchange of ideas, and their input would be considered in drafting the work plan for the management board. Future engagement on the topic was also anticipated, allowing for ongoing communication and information sharing.

Agenda Item 6: Analysis of the use of the Internal Capital Adequacy Assessment Process (ICAAP) in the Supervisory Review and Evaluation Process (SREP) (B-Point)

36. As part of its preparatory activities on the monitoring of the SREP Guidelines, the EBA staff from Prudential Regulation and Supervisory Policy (PRSP) Unit is currently updating its analysis on the role of the ICAAP in the SREP. The proposed focus is both on the institutions' current ICAAP practices and Competent Authorities' respective assessment in the ongoing supervisory review. The objective of the initiative is to explore, by taking a dedicated stock: 1) the current state of play in terms of institutions' ICAAP completeness, reliability and 2) the related usability in the context of the competent authorities' (CAs) assessment in the SREP.

37. Regarding the general view on the ICAAP and its role (strategic and managerial tool vs 'regulatory deliverable' to be submitted yearly to supervisors), BSG members made a clear distinction between the ICAAP horizontal process and the ICAAP report. While the process is fully considered a strategical tool that steers capital and business decision as well as the institutions' ongoing risk management, the report and its strict deadline for the submission are seen more as regulatory exercise needed for the supervisory assessment, rather than a bank's real internal tool. In this respect, one BSG member highlighted that often the feedback from supervisors, for instance when it comes to suggested amendments on bank's definition of the internal capital, would (to some extent) limit the fully institution-specific nature of this process. Other members, however, agreed that the Report is necessary to crystallize the whole process, that is developed on a continuous basis, and to allow its assessment by supervisors. Members also complained about the anticipated submission of the ICAAP Report (from 30.04 to 31.03) that was asked by the SSM also in the light of the efforts they are facing for the EU wide stress test.

38. On the most challenging areas (e.g. inclusion of ESG aspects), EBA staff underlined that clearly ESG elements are currently perceived as particularly challenging because of data limitation and availability issues which are not going to be easily overcome in the short term. Institutions are putting a lot of effort to increase their approach toward ESG aspects on a best effort basis, however it has to be always borne in mind that estimates in this respect are based on a limited information and as such intrinsically subject to uncertainties.

39. BSG members also made reference to the very recently published SREP Wiseman Report. The suggestions stemming from the report were generally welcomed also with regard to the holistic approach vs the risk-by-risk approach in the setting of capital add-ons, even if it was highlighted that the full adoption of the holistic approach would need even more to be compared with institutions' ICAAP figures in order to ensure the adequate coverage of the full spectrum of risks identified and quantified by the institutions.

40. Several BSG members finally asked what the planned strategic deadline of EBA's analysis is and whether it would go for a stronger reliance on the ICAAP in setting capital requirements. EBA

staff reiterated that this activity is at a very exploratory stage and no pre-emptive conclusions or way forward are currently envisaged.

Agenda Item 7: EBA Mandate on holdings of eligible liabilities issued by G-SIIs/O-SIIs under Art 504a CRR II (B Point)

41. EBA staff from ERA Unit discussed the main findings of an upcoming report on eligible liabilities prepared in response to a mandate from the Commission and focusing on analysing the amounts and distributions of holdings of eligible debt, as well as evaluating the risk of contagion related to those holdings. The report is divided into two parts: analysing the magnitude of holdings and conducting two contagion scenarios. The analysis is based on a sample of 124 banks, covering 74% of EU banking sector assets. The data is collected through an ad hoc data collection process as the securities holdings database is only available at the Euro area level. The main messages from the analysis are as follows: Exposures towards Global Systemically Important Institutions (GSIIs) and Other Systemically Important Institutions (O-SIIs) are manageable, although there are a few outliers with high exposures; portfolios are well diversified, with low exposures towards a single issuer for most resolution groups; banks exhibit a risk-based behaviour, with a majority of exposures towards senior preferred debt and a smaller portion towards senior non-preferred and subordinated debt; contagion scenarios show a mild impact, as EU banks have well-diversified portfolios and low exposure to riskier banks; Magnitude of exposures of eligible liabilities issued by G-SIIs and O-SIIs is, on average, 2.2% of the Total Loss-Absorbing Capacity (TLAC) instruments; there are a few outliers with exposures above 8% and 20% of the total TLAC, where a full deduction framework would be harmful; banks exhibit a risk-averse behaviour by preferring to invest in senior debt rather than riskier instruments.

42. Overall, the analysis suggests that the exposures and risk of contagion related to eligible liabilities are manageable and that EU banks exhibit prudent behaviour in their investments.

43. The BSG Vice-chair and several members suggested incorporating the analysis on a recurring basis in stress tests to simulate the effort of the two main counterparts. This would provide a broader range of exposure, including deposits, derivatives, and other lending. They acknowledge that banks are already doing some work in this area but emphasize the importance of selecting the main counterparts that would have the most significant impact. There were concerns raised about the loss of risk sensitivity with the implementation of CRR3. Banks will no longer be able to apply advanced approaches to their exposure to other banks, which would result in a reduction of risk differentiation. They expressed worry that this could discourage banks from investing in senior debt of other banks, especially in countries with limited foreign institutional investor appetite.

44. BSG members further pointed out that the exclusion of deposits in the study may be problematic. They referred to a previous run by SVB Credit Suisse, where the layer of "other

deposits" was significant for medium-sized banks. They suggested that including deposit data from the risk analysis team could provide a more comprehensive view. The market practice shows that banks tend to demand less when issuing single non-preferred bonds compared to floating bonds. They mentioned struggling to obtain information from the ECB but propose that banks could sign a consent to share the required information with the EBA, similar to other reports and agreements already in place.

45. One member particularly expressed concern about the treatment of deposits and its potential impact on the consideration of senior unsecured debt. He mentioned a published document (CMDI) that suggests a change in treatment, which could affect banks' ability to find equity for senior unsecured debt in the market and asked if it is possible to assess the business models of the systemically important banks based on the available data.

46. EBA staff replied that they agree with the remark about incentives on risk-weighted assets (RWA) and CRR3, and mention that options on RWA and refinements can be explored in addressing these concerns. They mention that some banks already meet their Minimum Required Eligible Liabilities (MREL) goals partly through long-term deposits, particularly for banks below a certain size threshold according to the last MREL report. They also acknowledge the potential significant impact of deposits in resolution scenarios. However, they note that deposits tend not to stick around, implying that losses may not directly impact deposit holders, and therefore, bail-ins may not be feasible for deposits. EBA staff mentioned that they are exploring access to the ECB database, but note that it may not fully solve the issue as it might only cover banks within the Banking Union. Nonetheless, they appreciate the point raised and will take it into account.

AoB:

47. One of the BSG members raised a concern about potential conflicts between AML (Anti-Money Laundering) rules enforcement, information sharing, and the principles of the General Data Protection Regulation (GDPR). She suggested that there is a need for a strong counterweight in the form of a pan-European authority, like the future AMLA (Anti-Money Laundering Authority), which does not yet exist. She proposed that the EBA considers initiating a dialogue with the European Data Protection Board (EDPB) to address this issue.

48. The BSG working group on AML acknowledged the concern and mentioned that they have been following the matter, understanding it to be more linked to Financial Intelligence Units (FIUs) and potentially AML, rather than real-estate supervisors. They commit to forwarding the concern to the EBA staff and exploring additional actions that can be taken in this area.

Participants of the Banking Stakeholder Group meeting 21 April 2023

Annex 1: Attendance list

Attending

Sebastian	Stodulka	Erste Group Bank AG	Austria
Martin	Schmalzried	COFACE-Families Europe	Belgium
Edgar	Loew	Frankfurt School of Finance and Management	Germany
Leonhard	Regneri	Input Consulting GmbH	Germany
Concetta	Brescia Morra	University Roma Tre	Italy
Tomas	Kybartas	Alliance of Lithuanian consumer organisations	Lithuania
Monika	Marcinkowska	University of Lodz	Poland
Maria	Ruiz de Velasco	Abanca	Portugal
Alin	Iacob	AURSF (Association of Romanian Financial Services Users)	Romania
Monica	Calu	Asociatia Consumers United/Consumatorii Uniti	Romania
Eduardo	Avila Zaragoza	BBVA	Spain
Patricia	Suarez Ramirez	ASUFIN	Spain
Vinay	Pranjivan	Associação Portuguesa para a Defesa do Consumidor	Portugal
Vèronique	Ormezzano	Vyge Consulting	France
Christian	König	Association of private Bausparkassen	Germany
Rym	Ayadi	City University of London, Business School and CEPS	Belgium
Rens	Van Tilburg	Sustainable Finance Lab	Nederland
Christian	Stiefmueller	Finance Watch AISBL	Austria
Johanna	Orth	Swedbank	Sweden
Sèbastien	De Brouwer	European Banking Federation	Belgium
Constantinos	Avgoustou	Regtify Limited	Cyprus
Poul	Kjær	Copenhague Business School	Denmark
Erik	De Gunst	ABN AMRO Bank	Nederland
Andrea	Sità	UILCA Italian Labor Union - credit and insurance sector	Italy
Lidwin	Van Velden	NWB Bank	Nederland

EBA

Chair	Jose Manuel Campa
Executive Director	Francois-Louis Michaud

Directors and Heads of Unit

Jacob Gyntelberg;
Angel Monzon.
Philippe Allard;

EBA experts

Mihnea Sarca;
Andreas Pfeil;
Achilleas Nicolaou;
Lorenzo Ducci;
Thibault Godbillon;
Maria Rocamora;
Alex Herr.

For the Banking Stakeholder Group

Done at Paris on 21 April 2023

José Manuel Campa

EBA Chair