EBA BSG 2023 024

Banking Stakeholder Group

3 August 2023

Location: EBA premises – Paris

Banking Stakeholder Group 6 July 2023 – Minutes

Agenda item 1: Welcome and approval of the agenda

1. The BSG Chairperson opened the meeting.
2. The BSG Chairperson asked the BSG members whether there were any comments on the draft agenda. There were no comments on the agenda.
3. The BSG Chairperson asked the BSG members to approve the minutes of the 21 April BSG meeting. The minutes were approved and will be published in due course.

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 previous meeting in April, with the objective to follow the 2023 EBA work programme to align the BSG input with it.

5. The floor was given to the BSG Working Group (WG) coordinators to provide the members with their updates.

6. The BSG members of WG 1A (Capital and Liquidity) explained that they have finalised a paper on AT1s which is ready for submission to the whole BSG. They have also undertaken work regarding the finalisation of the banking package and the coming EBA mandates, and stand ready to contribute to the EBA work in this area.

7. The BSG members of WG 1B (Resolution) stated they are still assessing the CMDI package proposal by the Commission on the BRRD and the role of deposit insurance schemes.

8. The BSG members of WG 4 (Payments, Digital, Fintech and Regtech) issued their answer to the request on DORA third party service providers. They expressed their interest in having further meetings and to collaborate with ESMA and EIOPA's stakeholders groups.

9. The EBA Chairperson, thanked the BSG members for their work, and emphasised that the EBA does not anticipate CMDI mandates in the short term, and that the three areas that will dominate the EBA's upcoming agenda and will require input from the BSG were DORA, MiCA, and CRD3/CRD6

Agenda item 3: EBA update on general developments

10. The EBA Chairperson highlighted some of the major developments since the previous meeting on 21 April 2023.

11. The EBA Chair started by mentioning the publication on 15 May 2023 of an interactive factsheet to help consumers understand how the recent increases in inflation and interest rates can affect their money. This factsheet was made with the other ESAs and includes the financial products and services that consumers currently hold or plan to buy, such as loans, savings, financial investments, insurance, and pensions.

12. The EBA Chair then highlighted the joint ESAs publication of the reports on greenwashing in the financial sector. In these Reports, the ESAs put forward a common high-level understanding of greenwashing applicable to market participants across their respective remits (financial markets, banking, and insurance and pensions).

13. The EBA Chairperson mentioned the 2022 Annual Report published on 12 June 2023. This report sets out the activities and achievements in 2022 and provides an overview of the key priorities for 2023. It underlines that in 2022, the EBA operated in a challenging and uncertain environment mainly triggered by the Russian invasion of Ukraine. Other disruptive factors included the lingering effects of the COVID-19 pandemic, the inflationary pressures and increasing supply chain concerns, the interest rate volatility, and the fallout from Brexit.

14. The EBA Chair then mentioned the publication of the third Report on the monitoring of liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) implementation in the EU. This Report assesses the potential impact on LCR and NSFR levels of the upcoming central bank funding repayment (mainly repayments of the targeted longer-term refinancing operations - TLTRO) as well as of a potential scenario of higher liquidity risk, particularly affecting government bonds, derivatives, and repo markets, in the context of a higher interest rate environment, inflation and recession risks.

15. The EBA Chair also noted the publication of an EBA Report on money laundering and terrorist financing (ML/TF) risks associated with EU payment institutions. Its findings suggest that ML/TF risks in the sector may not be assessed and managed effectively by payment institutions and their supervisors.

16. Finally, the EBA Chair mentioned that the three ESAs launched a public consultation on the first batch of policy products under DORA. This includes four draft RTSs and one set of draft ITSs. These technical standards aim to ensure a consistent and harmonised legal framework in the areas of ICT risk management, major ICT-related incident reporting and ICT third-party risk management. The consultation will run until the 11 September 2023.

17. The EBA Chair also informed the BSG members that the EBA is following closely the legislative process of the Digital Euro (even if its impact on the EBA is tangential), and that it will be issuing

consultation papers on MiCA mandates on a regular basis in the coming months, organized by topic and starting with authoritision, to be followed with governance and prudential matters.

18. The Chair also highlighted that the results of the EBA's biannual stress test will be published on 28 July.

19. One BSG member commented on the report on ESG implementation by the European Commission, and asked about how this will impact the EBA and Pillar 3 obligations for banks. The EBA chairperson responded that the EBA is prioritising its work on reporting and that immediate impact for the banks will be their obligation to start pillar 3 disclosures on ESG.

20. Another BSG member observed that a lessons learned exercise from the SVB and Credit Suisse fallout is a worthwhile exercise, and asked about how much focus should be given to liquidity risk, and how do banks cope with the impact of digital finance and fast-paced operations on deposits accounts. The EBA Chairperson responded that the EBA has been monitoring the consequences of the SVB and Credit Suisse fallout, together with the Basel Committee, and will continue to do so going forward. He further underlined that two main points of attention are banks risk management and competent authorities' supervisory intensity.

21. Finally, the EBA chairperson highlighted how the upcoming climate stress test represents a significant milestone as the first step towards integrating matters of sustainable finance into supervisory activities. It offers a much wider scope by including a broader range of banks and conducting cross sectoral analysis of credit risk, employing more top-down models in the process.

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

22. EBA staff from the Economic and Risk Analysis Department presented a brief overview of the drivers affecting the main risk areas. Starting off with the macroeconomic developments, the team reports that Global GDP growth is expected to remain subdued in 2024 – albeit slightly above 2023 levels. Emerging market economies are expected to stronger contribute to global growth going forward. While inflation remains persistent, there are indications of easing inflationary pressures in the EU and elsewhere.

23. Regarding the banking sector, EU bank share prices have declined and continue to reflect concerns about the robustness of mid-size US banks as well as the failure of Credit Suisse. In Q1 2023, EU banks' results characterised by strong profitability helped by rising NIM trend and still robust asset quality which supported capitalisation. Banks expect to grow their loan books only marginally going forward.

24. At the same time, more banks expect a deterioration in asset quality. Funding markets are nearly back to normal. The responses to the EBA Risk Assessment Questionnaire (RAQ) indicate banks' plans to replace maturing TLTRO funding by using current liquidity holdings and via covered bond issuing, as well as by increasing deposits. There is a rising focus on deposits and a declining focus on market-based funding going forward according to the RAQ. Deposit remuneration varies widely among countries; differences in competitive dynamics and liquidity needs could partly explain these variations.

25. A BSG member asked about the interconnectedness of the stages and the impact of a deterioration in credit quality as stage two loans and ratios came down. The EBA expert pointed out that there is a slowing of lending, and that stage two has been high for some years (at 9%). Asked about whether over indebtedness of households was examined, the EBA does not currently have data regarding this issue.

26. Another question from BSG members concerned the easing inflationary pressures that are a consequence of lowering energy costs and whether the decision of the OPEC plus countries to reduce oil production is being factored into the risk analysis of the EBA. The EBA expert replied that the oil market is not subject to a specific monitoring from the EBA. Asked about flows flowing from insurance contracts into deposits the EBA expert acknowledged that this could be looked into more closely together with EIOPA.

27. A BSG member asked about the providers of answers to the RAQ and the extent to which the EBA can rely on these answers. The EBA expert pointed out that overall, 85 responses (mostly from big banks) were given so a large majority of the banking sector is captured. The responses to the questionnaire are often submitted from the CFO offices and also from the bank side it was reported that the questionnaire is circulated among the top management, so it is taken very seriously.

Agenda Item 5: EBA Risk Assessment Report on ML/TF risk associated with payment institutions (B-Point)

28. EBA staff from the ICC Department presented an overview of the EBA's Article 9a Risk Assessment on money laundering and terrorist financing risks associated with payment institutions. Article 9a is a fact-finding tool to assess and support the ability of all competent authorities or a cross-section of competent authorities to address specific, strategic, emerging ML/TF risks.

29. AML/CFT supervisors shared their concerns with the EBA about: 1) the robustness of the overall implementation, by payment institutions, of AML/CFT measures; and 2) the adequacy and proportionality of the level of resources allocated by national competent authorities to the supervision of the payment institutions sector, which is oftentimes assessed as representing high or higher ML/TF risks. Therefore, the EBA decided to assess the following:

    a) the scale and nature of ML/TF risk associated with the sector;

    b) the extent to which payment institutions' AML/CFT systems and controls are adequate and effective in tackling those risks;

    c) the extent to which current supervisory approaches to tackling ML/TF risk in payment institutions are effective.

30. In its report, the EBA had three main conclusions. Firstly, AML/CFT internal controls in payment institutions do not seem robust enough to mitigate ML/TF risks. Secondly, there is a lack of homogeneity in the sector, and thirdly, supervisors' assessments of institutions' AML/CFT internal controls are overall insufficient to mitigate the high inherent risk, despite some exceptions, therefore the residual risk of the sector remains high. The findings of this report will feed into the EBA's bi-annual ML/TF risk assessment exercise.

31. The EBA staff highlighted that since the report's publication in January 2023, 60% of supervisor's controls have been found to be of poor or of very poor quality. These findings have also been reflected in publications by supervisors outside of the EU, for example the Financial Conduct Authority (FCA).

32. One BSG member commented in the light of the report that banks are right to be nervous about customers. The BSG member stressed the importance of working with NCAs on both supervisory models and conduct. She equally highlighted how important it is that banks and payments institutions address these AML concerns without preventing access to services such as non-resident access, remote onboarding, and instant access.

33. Another BSG member shared her perspective on the EBA Report findings, expressing that they were not surprising to her. She specifically pointed out a slide from the presentation that

highlighted the risks encountered by National Competent Authorities (NCAs). The slide drew attention to potential challenges and vulnerabilities that NCAs may have to address.

34. The EBA staff further explained that when considering derisking, it is important to understand that while implementing PSD2 and adhering to the related recommendations, there may be situations where certain risks need to be mitigated. However, it's essential to strike a balance between derisking measures and still being able to effectively serve individual customers. Striving to maintain a balance will ensure that the objectives of the directive are met while ensuring customers can continue to access the services they require.

35. One BSG member questioned why there were only 32 responses to the Report. In response, the EBA staff members confirmed the responses corresponded to the 32 supervisors responsible for AML supervision of payment service provides.

36. Another BSG member questioned whether the supervisory tools were available to supervisors were sufficient to address the AML concerns highlighted by the EBA's Report.

37. The EBA staff member stated the report highlighted several areas of concern, particularly concerning under-regulation in certain sectors. The need for a more rigorous and comprehensive authorisation process was emphasised to address this issue effectively. This is made more difficult by the sticky nature of the AML regulatory framework, which present a challenge as they are relatively easy to implement but challenging to remove or update. To tackle these challenges, it was suggested more thorough assessments be conducted, with a particular focus on evaluating a bank's readiness to handle risks. Moreover, the sustainability and viability of entities once established in the EU were deemed crucial factors that warrant careful consideration during the authorisation process.

38. On the sufficiency of supervisory tools, the EBA staff continued to say that supervisors should be given the authority to voice any concerns regarding the approval or rejection of such notifications. it is noteworthy that refusals are infrequent, and this practice might not fully align with the actual situation in practice. The staff member also highlighted the challenges posed by intermediaries and the need to solidify the supervisory control over them. Sector-specific chapters should be included to provide a conceptual basis for conducting meaningful assessments.

39. One BSG member raised his concern over how Payment Institutions have become credit institutions through the emergence of buy now pay later schemes. Such transformation has been observed to result in a reduced level of scrutiny compared to traditional banks, primarily because their banking books are not as extensive, leading to fewer credit risk reviews and a lack of adherence to certain regulations such as MIFID. The BSG member highlighted the implications of this shift in business models as an area may require review in the future.

40. In response to this comment, EBA staff responded by confirming supervisory sharing is currently occurring through colleges, and there is an AML database addressing serious deficiencies. There

is, however, a possibility for increased sharing in this regard, and a report focusing on this matter is to be published shortly.

41. The EBA staff thanked the BSG members for their input, and stated how the EBA will carefully consider the valuable input received and ensure effective information sharing among supervisors, which is already facilitated through colleges for Payment Institutions, as well as regular communications are observed with supervisors. There is a proactive approach in sharing data with NCAs on a need-to-know basis.

Agenda Item 6: BSG comments on the amendments to Guidelines on risk-based AML/CFT supervision to include crypto-asset service providers (B-Point)

42. Members of the BSG provided their comments on the EBA consultation on the amendments to the Guidelines on risk-based AML/CFT supervision to include crypto-asset service providers.

43. A BSG member explained how the guidelines addressed competent authorities and were adapting the various risk-based supervisory methods to better capture the activity and risks of crypto-assets service provider.

44. The BSG member also underlined that even though these guidelines addressed regulated entities, consistency in supervision remains a crucial aspect of consideration. She acknowledged that this is not for the EBA, but the aim of the guidelines is to ensure this consistent approach is adopted.

45. In the view of the BSG, greater recognition of granularity is needed by supervisors. Even though current understanding is already high, there is a need to be able to evaluate choices about technology set-up and be prepared with amendment proposals in order to facilitate this.

46. The EBA staff confirmed that the EBA has a comprehensive package of measures in the pipeline, with one of them involving an extension of the practices used for AML supervisors. The upcoming iteration will focus on risk-factor guidelines to enhance specificity in dealing with risky tasks.

47. The EBA staff stated further that regarding the consistency of supervision, the EBA acknowledges that while they won't directly supervise at the national level, whoever assumes this role must adopt a uniform approach as guided by these guidelines.

Agenda Item 7: EBA work on an integrated and consistent reporting system (B Point)

48. EBA staff from the Reporting and Transparency Unit presented an update on the EBA's work on integrated reporting. They began by updating the BSG members on the major achievements in 2022 and staff continued by giving an overview of the work in 2023, which is split into four topics:

    a. Firstly, governance and industry involvement. This involves the development of mandates for the Joint Bank Reporting Committee and Reporting Contact Group for industry involvement, and setting-up the JBRC by end of 2023, while the Reporting Contact Group will be set up in Q1 2024.

    b. Secondly, data dictionary – syntactic. This topic requires the EBA to decide on the governance of the syntactic layer.

    c. Thirdly, data dictionary – semantic. This topic involves the setting-up of the roadmap for semantic integration and establishing best approaches with respect to methodology/process and principles for semantic integration, documentation, perimeter, and timeline for integration.

    d. Finally, Granularity in supervisory and resolution reporting. This is in line with the EBA Feasibility Study actions, where the EBA will further investigate on the feasibility and planning for moving more granular. The EBA will also launch a pilot exercise on assessing the possibilities for introducing more granular reporting in supervisory benchmarking for credit risk metrics.

49. Continuing to present their achievements in the past year, the EBA presented the setup of the Joint Bank Reporting Committee (JBRC) which provides non-binding advice on integrated reporting aspects. The JBRC in its full composition (including NCAs) approves proposals made by the Steering Committee. This Committee also steers Expert- and Joint-expert groups created by the JBRC in its full composition. The role of the Banking industry in this would be that they provide feedback to the JBRC, participate in the Reporting Contact Group (RCG) and the Joint-Expert Groups. Hence, the RCG would serve as a regular channel for the cooperation and exchange of views and best practices between authorities and the industry.

50. The Joint Banking Regulatory Committee (JBRC) is an organization composed of European authorities and national authorities, permitting up to three representatives per country. Observers include EIOPA, ESMA, and ESRB. Its Steering Committee comprises a selected group of European authorities and country representatives from statistical, resolution, and prudential authorities, rotating with a balance between SSM and non-SSM countries. The JBRC secretariat is held by the EBA and ECB. It provides non-binding advice on the integration of reporting to various bodies and national authorities, with tasks including the proposal on the semantic integration of new and legacy reporting, common data models, and development of a common

data dictionary, among others. Expert groups consist of just authorities, while joint expert groups comprise both authorities and industry, each with up to two coordinators, at least one from the authorities. These groups, created on a specific mandate, report to the Steering Committee before the full JBRC, working toward efficiency and dialogue.

51. The Reporting Contact Group (RCG) consists of members appointed by the Joint Banking Regulatory Committee (JBRC), following a public call to stakeholders with expertise in regulatory reporting, particularly reporting banks. They serve based on their professional expertise and elect their own chair, with the list of members being public. The RCG provides technical, non-binding feedback to the JBRC, nominates participants to the Joint Expert Groups (JEGs), and cooperates with authorities when needed. It also communicates with the JBRC, highlighting relevant issues and providing written reports. JEGs, whose members are nominated by the RCG and JBRC, work on specific mandates with clear objectives, tasks, and deliverables set by the JBRC Steering Committee. Each JEG has up to two coordinators, including one from the authorities.

52. The JBRC is planned to kick-off in 2024, however, both the syntactic and semantic workstream are already progressing well before the start. After explaining the DPM 2.0 Role towards further integration concerning the data dictionary, the team presents the roadmap for semantic integration. Here, priorities will be both process related aspects (new ESG reporting, new data for which we have already defined changes, e.g., IRRBB) and the Perimeter and timeline for semantic integration.

53. After the presentation, the EBA elaborates on the presentation based on questions posed by the BSG members, they stress that The EBA feasibility study from December 2021 on integrated reporting has brought forward that a more integrated reporting is very much possible and the JBRC was a result of a series of discussion with the ECB, EC, SRB and SSM. Another aspect to be mentioned is the common data dictionary. Two expert groups investigated what is needed for a common data dictionary. This resulted in expert group recommendations that will be relevant when transitioning to a new DPM in 2024.

54. Overall, the presented setup was welcomed by the BSG members. Representatives of financial institutions suggested that existing experts groups should be used when it comes to nominating experts.

Agenda item 8: BSG views on deposit renumeration (B-Point)

55. Two BSG members presented their views on deposit remuneration and the observed pass through of interest rate rises to the consumers. The presentation underlined a general status quo on the evolution of interest rates, Euribor and deposit remuneration. Evidence observed in Spain and Portugal was subsequently provided to start a discussion on possible causes and remedies.

56. The assessment has brought forward that a significant divergence between the rates on two-year deposits and Euribor can be observed within the past year. At the same time the concentration of the banking sector does not seem to be clearly correlated with the passing through of interest rates to deposits. This observation led to a discussion on whether there is an issue of bad practices, high concentration, or lack of competition in the EU banking sector.

57. Some BSG members questioned whether the lack of transmission of the interest rate is a competition problem and what could be the role of the EBA to solve this issue. One BSG member pointed out that there is apparently no significant change on consumer's behaviour, which would allow banks to maintain the low interest rate on deposits despite the increase of interest rates. Another BSG member noted that some small banks do offer higher rates on savings which means that high operational costs cannot be an excuse for not raising interest rates.

58. Furthermore, it was pointed out that in Nordic countries deposits are not the dominant form of savings and market transparency is high and effective. The Chair reacted to those comments and comparisons by explaining that different banking markets require different competition analyses and underlined that banks with a funding profile based on wholesale or retail face different situations.

59. Another BSG member raised the issue of excess liquidity to underline that the fact that it is being withdrawn from the markets means that clients are being made offers accordingly. From this point of view, competition is not at all problematic and it was stressed that other factors influence client loyalty, such as confidence and trust in the institution.

60. The EBA Chairperson commented that the EBA has two roles in this matter: Firstly, enforcing the Single market – the diversity in the banking sector causes frictions and they have to be identified and secondly, contributing to the overall functioning of the EU banking sector for EU citizens.

Agenda item 9: EBA update on MiCA (B-Point)

61. EBA staff from the Digital Finance Unit presented an overview on activities regulated under MiCA, gave an update on timing and the development of policy mandates, and preparatory actions towards the establishment of the EBA's supervision function, and presented an overview of the EBA's approach to the European Commission's Call for Advice on a delegated act under MiCA.

62. While the activities regulated by MiCA will be shared among different institutions, the activities regulated by the EBA will be issuers of Asset Reference Tokens (ARTs) and E-Money Tokens (EMTs). While issuers of ARTs and EMTs will be authorised and initially supervised by CAs, the supervisory powers will be transferred to the EBA once ARTs and EMTs become significant.

63. The EBA's actions for the rest of 2023 centre around policy development, which include the preparation of 20 Technical standards and guidelines (2 joint with ESMA, 1 joint-ESA), and a response to the Commission's call for advice. At the same time, the EBA will build-up its supervisory capacity as it sets up the necessary procedures and methodologies for supervision and develops the requisite IT capabilities. From H2 2024, the EBA's supervision tasks for significant ARTs and EMTs and 'other' tasks, such as product intervention, are activated. All of this will be carried out alongside other transitional actions by the EBA such as promoting convergence in supervisory expectations toward ART/EMT issuers, and monitoring market developments.

64. In addition to the work on policy mandates, the EBA is conducting preparatory activities to establish the supervisory framework to be ready to deliver the new tasks kicking in from end-2024. The conduct of high-level supervisory activities under MiCA can be divided into four main blocks:

    a. The transfer of supervisory powers from CAs. This will include the assessment of the significance, and the transfer of powers from CAs to the EBA.

    b. The first year of EBA supervision. This is when the re-assessment of MiCA requirements based on supervisory priorities will take place.

    c. The ongoing supervision.

    d. The enforcement of supervisory measures, including the appointment of an Independent Investigation Officer.

Annex 1: Attendance list

Participants of the Banking Stakeholder Group meeting 6 July 2023

Attending

First Name	Surname	Institution	Country
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
Christian	Stiefmueller	Finance Watch AISBL	Austria
Johanna	Orth	Swedbank	Sweden
Sèbastien	De Brouwer	European Banking Federation	Belgium
Wolfgang	Gerken	JP Morgan SE	Germany
Andrea	Sità	UILCA Italian Labor Union - credit and insurance sector	Italy

<u>EBA</u>

Chair	Jose Manuel Campa
Executive Director	Francois-Louis Michaud

Heads of Unit

Philippe Allard;
Angel Monzon;
Carolin Gardner.

EBA experts

Simon Augarten;
Anca Dinita;
Tea Egar;
Diana Gaibor;
Aniko Hrubi;
Slawek Kozdras;
Elizabeth Noble;
Andreas Pfiel;
Davide Stroppa.

For the Banking Stakeholder Group

Done at Paris on xx August 2022

José Manuel Campa

EBA Chair