



EBA BSG 2016 012

Banking Stakeholder Group

16 February 2016/9:30-16:30

Location: London

Banking Stakeholder Group – Minutes

Item 1.: Welcome and Approval

1. The BSG Chairperson welcomed members at the last meeting of the BSG under this composition.
2. The agenda and the minutes were approved.

Item 2.: BSG Update on developments

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

3. The BSG Chairperson informed that the BSG Proportionality report had been presented in Brussels on 15 January 2016 and had received strong support from the European Commission. The BSG also made a submission to the European Commission's Call for Evidence on the EU regulatory framework for financial services which consisted of a restructured version of the BSG report.
 4. The BSG Chairperson mentioned the EBA 5th anniversary event and thanked all BSG members who attended this conference.
 5. The BSG Chairperson also noted that it was the last meeting of the BSG II under the current composition but the BSG should pursue its work until 14 April 2016. Thus, the BSG was responsible for submitting an Opinion to any EBA Consultation Paper if needed before this date.
 6. On the unallocated EBA Consultation Papers, the BSG decided not to submit any opinion on the following papers: EBA/CP/2015/24 on IFR and EBA/CP/2015/25 on cooperation and exchange of information for passporting under PSD2. However the EBA Consultation Paper on EBA/CP/2016/01 on Guidelines on implicit support for securitisation transactions had been allocated to Emiliós Avgouleas. One BSG member drew the attention of the Group to two Consultation Papers of utmost importance: EBA/CP/2015/26 on Guidelines on ICAAP and
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ILAAP information and EBA/CP/2015/28 on Guidelines on stress testing and supervisory stress testing.

B) Discussion on the End of Term of Office Report (ETOR)

7. Some BSG members pointed out that the BSG should be more proactive and their contributions should be done much earlier to effectively change the content of the EBA's Papers. One BSG member viewed that the Technical Working Groups should be smaller and more focused.
8. BSG members expressed their interest in developing BSG opinions on wider banking topics in addition to responses to EBA Papers. A BSG member underlined that it was complex to harmonise the positions of the different constituencies in a BSG position paper referring to the Proportionality report.
9. Greater emphasis on consumer issues was suggested by several BSG members. One BSG member viewed that greater cooperation with the other stakeholder Groups should be initiated, such as those of the other ESAs and also the Financial Service User Group (FSUG).
10. One BSG member suggested that the BSG should receive specific feedback from the EBA when its opinion is not taken into account. In terms of policy-making process, he considered that the BSG should intervene earlier to have the chance to influence certain elements of the regulatory products. Another BSG member viewed that the EBA should also take into consideration BSG members' constraints.
11. One BSG member suggested including in the ETOR a list of critical issues that could be followed by BSG III.
12. It was proposed that some text on the BSG's work on Payments / digitalisation be added.
13. On the process, the BSG Chairperson proposed to redraft the report after having received the contributions from BSG members. The report will be circulated at a later stage for a final flaw check.
14. Regarding the dissemination of the report, it would be published on the BSG page of the EBA's website. The Chairperson suggested sending the report to the European Commission, the European Parliament, and officially to the EBA, and the EBA's BoS, as well as the stakeholder groups of the two other ESAs. The report should be published by the end of BSG II's mandate in early April.



C) BSG Proportionality Report : follow-up

15. The BSG leader of the Task Force on Proportionality informed of the success of the event held on 15 January 2016 to present the Proportionality Report. The EBA's Director of Regulation and a member of the European Commission joined the meeting. They reportedly provided a positive feedback.
16. Some issues were still pending regarding the translation of the principle of proportionality into practice, the way of applying one model to various banks. However, there was a general consensus to better implement the principle of proportionality.
17. The BSG Chairperson informed that several references to the report were made in the media.
18. The EBA Executive Director mentioned that the EBA is undertaking some work to reflect on the application of the Proportionality principle, and seeking to identify some areas where the current framework could be modified to better reflect proportionality. He viewed that the prudential standards should not be jeopardised by differentiation.
19. One BSG member noted that Commissioner Hill indicated that proportionality was on the top of the agenda, whilst another BSG member deemed that BSG III could continue to work further on this report.

D) Update of BSG Technical Working Group Activities

20. The leader of the Technical Working Group on Consumer Protection and Financial Innovation listed the major responses made to EBA's Consultation Papers and the presentation made in the BoS/BSG meetings during the term of BSGII. He flagged several issues which needed to be addressed in the future: i) supervision and enforcement issues, ii) SMEs and bank lending, iii) big data. The issue of enforcement of the regulatory products was raised by several other BSG members.
21. In response to a question on digitalisation, the EBA Executive Director summarised the different reports the EBA has produced. He also outlined different measures taken by the EBA in the area of consumer protection, including on early warning. However he acknowledged that the EBA suffered from the lack of some legal power of the instruments used.
22. Regarding the Technical Working Group on Recovery, Resolution and Systemic Issues, the leader recalled that a presentation on the BSG work on BRRD had been given at a previous meeting. He also referred to technical comments made to the EBA's latest consultations on DGS and stress tests. He observed that the Commission was proposing amending the EBA draft RTS on MREL.
23. Regarding the Technical Working Group on Capital and Risk Analysis, the leader pointed out the major outstanding topics, namely the future of IRB, the SREP process, the definition of default, the Guidelines on ICAAP/ILAAP under consultation at that moment. She raised other



critical issues including IFRS 9 still under development, cyber risks viewed as a wide issue also affecting consumers and governance in banks.

Item 3.: EBA to update on general developments

A) EBA Chairperson to update on general developments

24. The EBA Executive Director expressed the EBA Chairperson's excuses for his exceptional absence due to a minor indisposition and thanked BSG members for their attendance at the EBA 5th anniversary and in particular the BSG Chairperson for his participation in one of the panel discussions.
25. He recalled that the end of BSG II mandate is on 14 April 2016. Up to this formal date, BSG members would be kindly requested to continue to respond to EBA papers. He also informed that the BoS had recently approved the proposed composition of new BSG members. Subject to the proposed new BSG Members' confirmation of acceptance of their respective appointments the EBA will publish the new BSG composition.
26. On the Q&A on CVA for exposures in structures with underlying risks, he informed that BSG views were sought on the potential impact of possible answers.
27. He also informed of the EBA policy on the application of anti-money laundering measures to refugees. He updated BSG members on the ITS on Mapping of External Credit Assessments for Securitisation Positions aiming at establishing mappings which are consistent between ECAIs with historical performance data (e.g. S&P, Moody's, Fitch, DBRS) and those with insufficient data (e.g. smaller ECAIs).
28. He mentioned the EBA's Report on SMEs and the 2016 EU-wide Stress tests exercise which would be discussed at a later stage in the meeting. He provided BSG members with an update on the RTS on Additional Collateral Outflows for Derivative Contracts, putting forward how to measure collateral outflows in the books of banks.
29. He indicated that the Report on Basel III (whose aim is to update on how CRD/CRR are progressing to meet the Basel requirements) would be published in March.

B) Update on Risks and Vulnerabilities

30. EBA staff presented the latest update on risks and vulnerabilities, putting forward the improvement in banks' capital positions despite it being significantly dispersed. He also informed of the latest Non-Performing Loans (NPL) developments which have trended to decrease, even though there was a high level of NPLs in the SME sector. Regarding the banks' provisions after the introduction of IFRS 9, banks expected an increase in impairments. In terms of profitability, it was noted that there are some improvements but the dispersion has increased. It was also indicated that there was a hike in yield of AT1 securities.



31. The BSG Chairperson viewed that it might be interesting to pay attention to the banking system in China in the period ahead. Regarding the methodology, he observed that the biggest risk was the combination of risks as the past financial crisis did not occur due to one risk but a combination of different risks.
32. Some other issues were raised on SME lending. Another BSG member questioned about how to calculate the tax rate presented in the document and why the dispersion was so high especially for Romania. The bias for Romania should be explained by the data provided by NCAs.
33. The BSG Vice-Chairperson showed that the bulk of the effects of IFRS 9 came from the shift in Stage 2 (assets for which the credit risk increased). He asked for more detail on what portfolios were impacted and what business models would be more impacted.
34. EBA staff also gave a short update on the EU-wide 2016 Stress Test exercise, explaining that the stress test would be launched shortly after the meeting.

Item 4.: EBA to update on the 2016 ESAs' Consumer Day

35. EBA staff recalled how the two previous ESAs' Consumer Days in London and in Frankfurt were organised and announced that the next Consumer Day is due to be held in Paris in September 2016.
36. One BSG member explained that consumers would like to be more involved in the discussion and that the event should be more focused on enforcement of the legislation put into force after the financial crisis.
37. EBA staff indicated that the representation and involvement of the consumers were under discussion with ESMA and EIOPA. Regarding the enforcement/supervision of the regulatory requirements, he recalled that better ensuring supervisory convergence in the implementation of rules was already included in the EBA's work programme for 2016.

Item 5.: EBA to update on its other work

A) Opinion on the trigger, calculation and transparency of the Maximum Distributable Amount (MDA)

38. EBA staff summarised the legislative framework under which the Opinion was designed. It was noted that this Opinion had the goal to harmonise the different approaches followed by the CAs and to clarify the framework at the market participants' request. EBA staff explained the conditions under which the combined buffer might be breached. Further explanation was provided on the two different opinions issued as one was addressed to the CAs and the other to the European Commission.



39. One BSG member inquired whether the Opinion could have a potential impact on total capital and was concerned by the different interpretations of Article 141. Another BSG member supported the first comment and asked for more clarity as he had concerns on Pillar 2. A third BSG member viewed that the Opinion should give some leeway to the supervisors to deviate from the common rules at some points.
40. One BSG member viewed that the EBA Opinion was dealing with the coupons, the dividends and the bonuses. At the moment, the text put the three items at the same level, but he advised that some banks had a clear preference to first pay coupons and restrict dividends and bonuses whilst some other banks adopted a different approach. According to him, the Opinion should reflect the different situations. Another BSG member asked whether the notion of capital restoration was the one embedded in CRD IV.
41. EBA staff responded that the Article 141 was clear regarding the nature of the financial buffer as it should be common equity (CET1). He indicated that it would not be possible to deviate from the CRD rules. He also mentioned that the EBA considered to link this Opinion to the capital resolution plan and the SREP Guidelines and expected the CAs to comply with this Opinion from this year. With the SREP Guidelines, the EBA tried to harmonise the procedures adopted by the CAs. The EBA would monitor closely the implementation of the SREP Guidelines.

B) Draft Report on SMEs

42. EBA staff explained the background of the report, the EBA mandate to analyse SME lending, riskiness and their consistency with the SME Supporting Factors and the main insights from the consultation on the discussion paper on SMEs published in July 2015.
43. EBA staff highlighted that SMEs remained largely reliant on bank finance, hence the importance of the SME Supporting Factors and gave an overview of the SME lending trends and conditions. It was noted that both lending trends and conditions of both SMEs and large firms had been severely impacted by the financial crisis with a significant credit contraction since 2008. On the impact of the SME Supporting Factor, the report did not find any evidence that the factor led to an increase in lending to SMEs more than for large firms. Moreover, in terms of consistency of the SME Supporting Factor with SME riskiness, the results were mixed, with the capital requirements being assessed as adequate in SA and IRB Corporate portfolio, but not sufficient in IRB Retail.
44. One BSG member presented his views based on the EBA presentation. He highlighted that the main take away from the report is that the lack of data on SMEs significantly reduces the ability of policy makers to assess the impact of regulatory policy. He also stressed that further work on collecting data on SMEs and the SME Supporting Factor should be a priority. He also remarked that further explanation may be required on why medium SMEs are found to be less risky than large firms. The BSG Chairperson emphasised that much research should be led on this topic.



45. One member suggested linking the results of the study to the current Basel work on the review of the Standardised Approach. The BSG Vice-Chairperson questioned about why no direct effects of supporting factors were observed. He suggested that a possible explanation could be that banks had capital in excess of regulatory requirements and hence there was no direct benefit from implementing the SME Supporting Factor. One BSG member referred to an EIB study on European competitiveness highlighting that the biggest problem was the access to external financing, in particular in the southern MS. He viewed that some reference to aggregate data could be useful.

C) Leverage Ratio Calibration Report

46. EBA staff noted that in accordance with Article 511(3) of the CRR the EBA should report to the Commission by 31 October 2016 which, in response to a Call for Advice by the Commission of 26 June 2015, had been accelerated to July 2016. They presented the risk dimensions already developed in conjunction with the competent authorities to measure exposures to the risk of excessive leverage, including the level and stability of profitability, the stability of funding, the stability of the business activity, and the degree of concentration.

47. Consistent with the analyses in the context of the LCR and NSFR calibration reports, for the purpose of the Leverage Ratio (LR) calibration report, the EBA envisaged to group banks into business model categories. Some slight alterations have been made to the business model categories used in the LCR and NSFR analyses as the LR may affect different types of business activities.

48. One BSG member viewed that the EBA should be careful that the calibration would not affect the backstop nature of the LR. He raised his concerns about the transparency of the process considering that the information should be available to banks. EBA staff clarified that the EBA was going to disclose the definition of the categories of business models but not the individual classification of each bank due to confidentiality issues.

Item 6.: EBA to update on its other work

A) The experience of the Danish Resolution Authority

49. One BSG member presented the experience of the Danish Resolution Authority. It was noted that two resolution authorities operated in Denmark. The powers dedicated in BRRD to the resolution authority were divided between the Financial Supervisory Authority (FSA) and the Financial Stability Company (FSC), the FSA acting as the resolution authority until the institution met the conditions for resolution and the FSC acting as a resolution authority when the resolution conditions were met.

50. The BSG member also gave a presentation of the resolution strategies and a case study on Andelskassen J.A.K. Slagelse was presented under BRRD framework.



51. Some questions were asked about the coordination between the two authorities, how to manage the issue of branches of a bank that may be in a quite different situation from the major bank, and the issue on critical function. Regarding the case study presented, BSG members focused on the breach of Money Laundering rules and how the Danish Authority treated this example of misconduct or the valuation issue raised by the auditors when assessing the bank's data.

B) BSG remarks on the Basel Committee on Banking Supervision Second Consultation on revision to the Standardised Approach for Credit

52. BSG members decided to respond to a Basel Committee on Banking Supervision (BCBS)'s consultation on Standardised Approach for credit.

53. It was decided that the BSG would send its response under the name of the BSG, reflecting in a disclaimer that it was not an EBA contribution but an independent BSG opinion. The final position should be circulated to the whole BSG for final check and approval.

List of participants:From the BSG

Mike	Dailly	Consumer
Emilios	Avgouleas	Academic
Anne	Fily	Consumer
Sandra	Hafner	Credit and investment institutions
Alin Eugen	Iacob	User of banking services
Chris	De Noose	Credit and investment institutions
Arnold	Kuijpers	Credit and investment institutions
Zdenek	Hustak	Academic
Nikolaos	Daskalakis	SMEs
Nina	Legind	Academic
Louise	Lindgren	Credit and investment institutions
Jesper Bo	Nielsen	Employee
Michel	Bilger	Credit and investment institutions
Robin	Jarvis	Consumer
José Antonio	Gonzalo-Angulo	Academic
Santiago	Fernández de Lis	Credit and investment institutions
Troels	Holmberg	Consumer
Bostjan	Krisper	User of banking services



Dermott	Jewell	Consumer
Ernst	Eichenseher	Credit and investment institutions
Alf	Alvinussien	User of banking services
Dominic	Lindley	User of banking services
David	Llewellyn	Academic
Andrea	Resti	Academic

5 members were absent: Holger Schwannecke (SMEs), Ute Meyenberg (employees), Javier Contreras (consumers), Roberto Priester (credit and investment institutions), Sabine Masuch (credit and investment institutions) and John Hollows (credit and investment institutions).

From the EBA

Adam Farkas - Executive Director
Dirk Haubrich
Corinne Kaufman
Mario Quagliariello
Marina Cernov
Cédric Coraillon-Parquet
Gerbert de Jong
Alessandro Nardi