

EBA BSG 2016 022

Banking Stakeholder Group

18 April 2016/9:30-16:30

Location: London

Banking Stakeholder Group meeting – Minutes

1. This BSG meeting was the first under the new composition.

Item 1.: Welcome and agenda

2. The EBA Chairperson welcomed the new BSG members for their first meeting. He offered to chair this meeting and proposed that the BSG Chairperson's election be postponed to the next meeting in June, in order to enable BSG members to better know each other.

Item 2.: Tour de table

3. BSG members were requested to introduce themselves and provide a brief overview of their background.

Item 3.: Organisational and functioning issues

A) Functioning of the BSG

4. EBA staff presented an overview of the EBA's organisation, including the decision-making bodies, and the supporting working groups.
 5. EBA staff then introduced the role of the BSG, and their support to the BSG. EBA staff answered BSG Members questions on:
 - The extent and ability to amend the BSG's Rules of Procedure;
 - The role of the EBA's working groups;
 - The BSG's role with regard to the EBA's Questions and Answers (Q&As) process.
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6. One BSG member viewed that the three Technical Working Groups established by the former composition of the BSG should be narrowed and their members more focused on the topics they deal with.

B) Introduction of the EBA's consultation practices

7. EBA staff presented the role and interaction of the EBA/BSG in the EBA's consultation practices.
8. Further, the EBA staff provided a presentation on the EBA's 2016 Work Programme. The EBA Executive Director highlighted the EBA's key priorities and its key deliverables in the forthcoming months. It was noted that the EBA's 2017 Work Programme would be prepared by September. The EBA may need to update its work programme for 2017 later in 2016 after the determination of the EBA's budget by the EU budgetary authorities.
9. One BSG member asked as to whether the Pillar 2 Approach would be reviewed in 2016 or in 2017. The EBA Chairperson responded that the EBA intended to conduct a benchmarking review of the Pillar 2 process every year.

C) Administrative matters

10. EBA staff presented the EBA's policy on reimbursement, including the allowances for meetings' attendance, highlighting which BSG members are eligible to such a reimbursement.

Item 4.: EBA to update on general developments

A) Presentation on the forthcoming Leverage Ratio Report

11. EBA staff introduced the topic by presenting the background and rationale, the European framework and the mandate assigned to the EBA.
12. EBA staff presented the preliminary general conclusions of the report on the introduction of the Leverage Ratio (LR) requirements. The results of the quantitative analyses performed by the EBA reportedly suggested that a 3% level of calibration for the LR would be consistent with the objective of a "backstop" measure to supplement risk-based capital requirements. The EBA's analyses made clear that the potential impact of introducing a LR requirement of 3% on the provision of financing by credit institutions would be relatively moderate when put into the context of the overall size of the banking sector.
13. The EBA was also mandated to assess business models according to their risk in the context of the LR report. EBA staff noted that the quantitative benchmarking results gave indications for a potentially elevated exposure to Risk of Excessive Leverage (R.E.L) in the case of the largest and most complex credit institutions. However, the empirical results revealed a very moderate increase in risk-taking. EBA staff also informed that the final report would be submitted to the European Commission in the course of July.



14. One BSG member raised his concerns about the implementation of the LR in a low interest rate environment. Accordingly, the BSG member suggested the possibility to add national discretion to provide more flexibility to CAs to deal with the situation of individual banks.

15. EBA staff replied that the impact of the LR on banks' balance sheets, working with the trade-off between raising capital and selling assets, receives attention in the EBA work by way of a simulation analysis as well as an econometric study. EBA staff also observed that the EBA's approach sought to promote more harmonisation.

16. Another BSG member highlighted that LR was also a consumer issue and asked whether a higher LR could be detrimental to consumers. Other BSG members asked questions about:

- The 3% calibration ratio retained by EBA staff;
- The treatment of Pillar II;
- The consistency of the EBA report with the work led by the Basel Committee on Banking Supervision (BCBS);
- The impact assessment on accounting.

17. The EBA's Chairperson concluded that LR would provide a backstop. Under these conditions, the EBA should identify the more impacted banks by the implementation of the LR, in particular a few of the smaller specialised banks. He indicated that a LR if it were set too high would trigger changes in a significant number of business models and would push the affected banks to change their balance sheet to comply with the LR. Therefore, the more appropriate approach would be to properly calibrate the LR. Accordingly, 3% was regarded as the more balanced calibration.

B) EBA Chairperson to update on EBA's Consultation Papers recently issued

18. The EBA Chairperson updated on EBA's Consultation Papers issued recently for which the former composition of the BSG (BSG II) did not have time enough to submit an opinion: i) Draft Guidelines on corrections to modified duration for debt instruments for which the consultation runs until 22 June 2016 (EBA/CP/2016/03), and ii) Draft amending RTS on credit valuation adjustment (CVA) proxy spread for which the consultation runs until 6 July 2016 (EBA/CP/2016/04). He also mentioned the upcoming EBA's Consultation Papers, namely the Guidelines on disclosure of LCR, and the draft RTS on disclosures of unencumbered assets.

C) EBA Chairperson to update on general developments

19. The EBA Chairperson updated on the EBA's work on Internal Models, taking note of the proposals out for consultation by the Basel Committee on Banking Supervision.



20. In the resolution field, he informed that the EBA is conducting an interim impact assessment report on the Minimum Requirements for own funds and Eligible Liabilities (MREL) under the BRRD which the EBA hopes to finalise before the summer.
21. Regarding Pillar II, the EBA Chairperson noted that its set of Guidelines for common procedures and methodologies for the supervisory review and evaluation process (SREP) were published in December 2014.. It was also noted that the EBA published an Opinion on the interaction of Pillar 1, Pillar 2 and combined buffer requirements and restrictions on distributions in December 2015 which sought to harmonise the different approaches in the EU.
22. He mentioned the European Commission’s Call for evidence on the EU regulatory framework for financial services with a view to simplifying the framework and introducing more flexibility and proportionality. To this regard, the EBA is currently working on proportionality aspects of the regulatory framework.
23. He also made reference to the leaked “Panama Papers”. On Payments, he noted that the EBA had acquired new mandates due to the endorsement of the Payment Services Directive II (PSD II).
24. He provided some information on the organisation of the BSG Chairperson’s election and put forward some criteria that BSG members should take into consideration: i) neutrality to ensure the bridge between the different constituencies, ii) time commitment, iii) knowledge in the main issues of the EBA’s work. Thus BSG members are required to find a good balance between their Chairperson and their Vice-Chairperson to make sure all the constituencies are duly represented.

D) EBA’s Research Workshop in November 2016

25. The EBA Chairperson informed of this year’s EBA Research Workshop where the selected topic is ‘Competition in banking: implications for financial regulation and supervision’ and explained that the EBA was seeking to explore the role of competition in banking, with a particular focus on new non-banking players. He informed that BSG members were requested to suggest some research papers on banking structures after the crisis, level of competition in banking, consolidation in the banking sector, shadow banking and competition, bank disintermediation and banks’ role in capital market financing, or the role of FinTechs and other non-banking players.

E) Update on risks and vulnerabilities

26. The Head of the Risk Analysis Unit, presented an overview of the main risks and vulnerabilities in the EU banking sector, making clear that asset quality and low profitability are two areas should be closely monitored. In terms of capital evolution, they showed the steady improvement of banks’ capital ratios over the past years.



- 27.Regarding the asset quality, it was noted that the non-performing loans (NPL), while decreasing, remained quite high in the EU with a high dispersion by size class and among countries. Amongst the financial market trends, it was observed that AT1s issuance has been subdued in Q1, but restarted later on.
- 28.From a selection of indicators, EBA staff demonstrated that banks' profitability remained subdued.
- 29.BSG members asked questions about profitability, raising their concerns regarding the massive geographical heterogeneity. Some of them expressed their opinions regarding the link between the depressed profitability for retail banks and the impact of the continued low interest rate environment, even though some other members considered this explanation as not sufficient to explain the low level of profitability.

F) Update on the 2016 Stress Test exercise

- 30.The Director of Oversight presented the key features of the 2016 EU-wide stress test exercise. He also focused on the main methodological changes for the 2016 exercise and the timeline, where a publication of the results is scheduled for early Q3 2016.
- 31.BSG members asked procedural questions on methodology, on the link between the stress test exercise and the Supervisory Review and Evaluation Process (SREP), and on the application of the different risks.
- 32.BSG members also questioned about the links between SREP and Pillar II requirements, including the possible adjustments on Pillar II and on the buffers which could be used to absorb the negative results of the stress test exercise.
- 33.Some other BSG members criticised the lack of transparency regarding conduct risks.
- 34.One BSG member queried about the testing of liquidity, whilst another raised concerns about the gap between the disclosure of the stress test's results and the one of the SREP's results, covering at least three months of uncertainty for the market.
- 35.The EBA viewed that the link between SREP and stress test was not mechanistic, but that the outcome of the stress test should inform supervisors in their SREP assessment.
- 36.Regarding conduct risk, he noted the reliance on supervisory interaction with the bank as the potential losses tended to be lumpy. On liquidity, he noted it was not in the solvency stress test, which stressed price not volume changes of liquid assets. But he also noted liquidity stress tests are assessed via ILAPP/SREP.

Item 5.: EBA to update on consumer protection, financial innovation and payments work



37. EBA staff updated BSG members on the next joint ESAs Consumer Protection Day, which will be held on 16 September 2016 in Paris. Information on the initial draft programme, the organisation of the three panels and the possibilities of reimbursement for consumers' representatives was provided.
38. Some BSG members deemed that some additional aspects could be discussed, including the enforcement of consumer protection requirements, SME matters, and product intervention. Generally, BSG members called for more involvement of the CAs and central banks in the Consumer Protection Day. EBA staff responded that the Consumer Protection Day agenda was a joint endeavour of the three ESAs, and that the suggestion will therefore be discussed with the other ESAs. Regarding the comment on enforcement, EBA staff pointed out that the statutory objectives of the EBA include regulatory convergence and supervisory convergence. While the EBA has focused so far primarily on the former, in 2016/17 its work will increasingly focus on the latter. EBA staff also clarified that the term enforcement is not used by the EBA, because it has a different and much narrower meaning.
39. EBA staff also informed on the EBA Discussion Paper (DP) on innovative uses of consumer data which would be published in Q2 2016 with a view to understanding how financial institutions use data, defining the phenomenon, and outlining potential benefits and risks for consumers and financial institutions.
40. Some BSG members supported the EBA's work, so as to ensure the due protection of data, while other BSG members deemed that it was necessary to have a more balanced approach given the pros and cons of this innovation.
41. EBA staff also presented an update on the EBA's mandates under the Interchange Fee Regulation (IFR) and Payment Services Directive 2 (PSD2), clarifying the EBA's work achieved so far and the initiatives started or to be launched in 2016.
42. Finally, EBA staff summarised the other EBA's initiatives, including EBA Benchmark rate under the Mortgage Credit Directive (MCD) already endorsed by the EBA BoS, EBA Guidelines on creditworthiness assessments under the MCD, on arrears and foreclosure under the MCD, on passporting of credit intermediaries under the MCD, on product oversight and governance, as well as the technical standards under PRIIPS Regulation and under the Payment Accounts Directive (PAD).

Item 6.: EBA to update on its other work

A) EBA's Consultation Paper on the draft RTS on disclosure of unencumbered assets

43. EBA staff presented a draft Consultation Paper which the EBA intended to launch for consultation in the coming weeks after the BSG meeting, where the EBA is mandated to facilitate market transparency on asset encumbrance.



44. EBA staff raised the main topics of the Consultation Paper for which they sought feedback in particular, including encumbrance due to operations with central banks, the value used for disclosures, the indicator of asset quality to be used, qualitative information to be required and frequency of disclosure.
45. Globally BSG members agreed that disclosure was an important topic. Some BSG members observed that the EBA should ensure consistency with the other requirements such as LCR. They also questioned about the frequency of disclosure, asking as to whether the EBA would require daily data; as well as the time lag in disclosure, posing the need to balance the relevance against the sensitivity of disclosures.
46. EBA staff noted that the reportable data would be required on at most a monthly basis, and subject to a twelve-month window.

Item 7.: AoB

47. The EBA chairperson informed that the next BSG meeting would take place on 22nd June 2016. A Joint meeting with the EBA's Board of Supervisors members is due to held on 21st June 2016 too. He suggested some topics to be discussed at the Joint meeting, including virtual currencies, MREL and Pillar II issues in relation to the stress test exercise.



Participants:

Chair - Andrea Enria, EBA chairperson

Nikolaos	Daskalakis	GSEVVEE
Dominic	Lindley	Financial Services Consumer Panel
Sergio	Lugaresi	Italian Banking Association
Luigi	Guiso	eief
Mike	Dailly	Govan Law Centre
Angel	Berges	AFI / UAM
Anne	Fily	BEUC
Michel	Bilger	CREDIT AGRICOLE
Sabri	Thaer	Electronic Money Association
Giedrius	Steponkus	Lithuanian Investors
Soren	Holm	Nykredit
Ernst	Eichenseher	UniCredit Group
Phryne	Michael	Consumers
Arnold	Kuijpers	Rabobank
Gerda	Holzinger-Burstaller	Erste Group Bank AG
Peter	Mülbert	University of Mainz
Alin	Iacob	Association of Romanian Financial Services Users
Martin	Schmalzried	COFACE
Sabine	Masuch	Association of Private Bausparkassen
Santiago	Fernández de Lis	BBVA
Guillaume	Prache	Better Finance
Jesper Bo	Nielsen	FSU-DK
Dermott	Jewell	Consumers' Association of Ireland
Christophe	Nijdam	FINANCE WATCH
Giovanni	Petrella	Università Cattolica del Sacro Cuore, Milano
Monika	Marcinkowska	University of Lodz
Sara Paulina	De Oliveira Monteiro	Portugal's Biotechnology Industry Organization
Simon	Hills	British Bankers Association
Mark	Roach	Verdivereinte Dienstleistungsgewerkschaft

EBA staff:

Adam Farkas, EBA Executive Director
Piers Haben, Director of Oversight
Philippe Allard
Corinne Kaufman
Dirk Haubrich
Mario Quagliariello
Rita Bairros
Cédric Coraillon-Parquet
Laura Diez Perez
Tea Turcaniova
Gerbert van der Kamp
John Wu