



Banking Stakeholder Group

BSG 2012 18 ver2

24 April 2012

Minutes

meeting of the Banking Stakeholder Group and

EBAs' Board of Supervisors

8 February 2012

1. Greeting and Approval of Agenda

1. The Banking Stakeholder Group Vice-Chair and the EBA Chairperson welcomed the members of the Banking Stakeholders Group (BSG) and the EBA's Board of Supervisors (BoS).

2. Presentation of Key Issues, Priorities and Concerns of the BSG

2. The BSG Vice-Chair provided a briefing on the BSG's main priorities, namely consumer protection; liquidity; capital; and systemic issues. On this basis the BSG has established four working groups and is planning some specific studies.
3. The EBA Chairperson reiterated and confirmed the importance of the responsibilities assigned to the EBA in the areas of consumer protection, liquidity and capital. Moreover, the BSG's support in the form of its input through consultations on the high number of proposed technical standards is a crucial part of the EBA regulatory developments.

3. Presentation of Key Issues, Priorities and Concerns of the BSG

4. The BSG Vice-Chair and other BSG members raised concerns about recent developments in the European banking system, mainly in terms of: (i) the massive pro-cyclicality of the capital and liquidity framework; (ii) the lack of an comprehensive cumulative impact of the regulatory proposals; (iii) the uncertainty arising from regulatory change; (iv) the lack of necessary transitional periods. It was also mentioned that as long as resolution techniques are refined and allow for an orderly exit from the market, the regulation could be relaxed. Moreover the overall importance of consumer protection was raised.
5. The EBA Chairperson confirmed that the EBA will act carefully in the calibration of regulatory requirements to try to ensure that any pro-cyclical

impact is minimised. It was also clarified that both Basel and the EU Commission assess the overall impact of the standards and regulation. Moreover the EBA regards as unlikely that the strengthening of the framework for resolution will reduce the need for effective regulation and supervision.

6. The BSG members noted that there is pressure to meet the new capital requirements by decreasing assets rather than raising levels of capital.
7. One BSG member gave a presentation on trade unions' position on the application of *MIFID*. The main aim of the presentation was to show that employee's and client's interest are often similar and can be met by respecting regulation. Problem areas identified for clients and employees were: (i) clients are not informed about inducement systems; (ii) about 1/3 of relationship officers admit to being obliged to sell products unfit for clients in order to meet their objectives; (iii) sales pressure remains high; (iv) training is often insufficient; and (v) responsibility is pushed down to the lowest level of hierarchy, with employees having limited influence on procedures.
8. Another BSG member presented "*the results of research on the lessons from the 2011 European Stress Testing Exercise*", which focussed on (i) an analysis of market reaction; (ii) the significant risk drivers: Core Tier 1 ratio, Risk Weighted Assets (RWA), coverage ratio for credit exposures, cost of funding, coverage ratio for defaulted exposures; and (iii) the positive impact of disclosures. The analysis was supportive of the EBA's disclosures. It was noted that further transparency is required in terms of future EBA stress test exercises and the disclosure requirements in CRD4. Moreover, the 2011 stress test exercise did not reduce the uncertainty about the EU's banking system, in particular as regards the funding issue.

4. Transitional and Horizon Issues

9. The BSG Chair and other BSG members expressed some further concerns about:
 - (i) the destructive sovereign-bank loop; concentration risk of sovereign exposures; and bank ratings follow the sovereign downgrade;
 - (ii) the increasing spread and scope of the Euro crisis;
 - (iii) the variability of capital risk weights across different institutions;
 - (iv) the potential macroeconomic impact of bank deleveraging and its link to capital plans and dried-up funding sources;
 - (v) the shadow banking problem;
 - (vi) funding difficulties (banks, SMEs, corporates); and
 - (vii) short time and pressure to change the bank business model.

10. It was clarified that the objective of the recapitalisation plan is to break the bank-sovereign loop. Moreover there is an incentive to restructure the bank business model and decrease the moral hazard.
11. The EBA Chairperson expressed the view that deleveraging is to a certain extent actually positive and that deleveraging in the USA has started earlier than in Europe. The EBA and ESRB are carefully monitoring the deleveraging process, as well as funding, in order to coordinate policy actions. Further, the EBA intends to investigate consistency of outcomes on risk weighted assets.
12. Other BoS members acknowledged their awareness of the issues regarding the changes in the structure of funding and funding difficulties and deleveraging on non-core assets.
13. The ESRB representative stressed that US Dollar funding has been addressed already and noted that the ESRB would be publishing a recommendation addressed to supervisors.

5. Conclusions

14. The BSG Chair summarised the main BSG concerns raised during the meeting which were: (i) sovereign-bank loop; (ii) funding difficulties; (iii) impact on real economy; (iv) upcoming stress test disclosure; and (v) RWA comparability.