

EBA BSG 2017 032

Banking Stakeholder Group

2 May 2017/9:30-16:30

Location: London

EBA-Unrestricted

Banking Stakeholder Group –Minutes

Item 1.: Welcome and adoption of the agenda

1. BSG chairperson welcomed BSG members. The agenda and the minutes were approved.

Item 2.: BSG Update on Recent developments

A) Update on recent developments

2. With regard to coordination with the other ESAs stakeholder groups, BSG Chairperson informed that he expected to prepare a joint position on the European Commission's consultation paper on the ESAs review. However it was agreed among the stakeholder groups that each of them would prepare its own reply to the consultation, and work in parallel on a short joint statement focused on their common denominator after the end of the consultation period.. He also mentioned that he, together with the BSG Vice -Chair, would participate in a meeting that would take place the day after with the Chair and Vice-Chairs of the ESMA stakeholder group.
3. He suggested allocating the open consultation papers as follows:
 - Consultation on Guidelines on procedures for complaints of alleged infringements of the PSD2 (EBA-CP-2017-01) under the WG on Payments, Digital and Fintech;
 - Consultation on RTS on CCP to strengthen fight against financial crime (JC-2017-08) under the WG on Supervision, Governance, Reporting and Disclosure;

B) Update of BSG Technical Working Groups' Activities

4. The leaders of the various technical Working Groups informed BSG members of their recent activities.
-



5. The rapporteur of the ad-hoc Working Group on regulatory sandboxes presented the agreed structure of the report that BSG intended to publish.

Item 3.: EBA Update on General Developments

A) EBA's Update on general regulatory developments

6. The EBA's Executive Director (ED) presented the excuses from the EBA's Chairperson who was unable to attend the meeting because of another high-level commitment.
7. The ED recalled that the EBA organised a workshop on 28-29 November 2017 on the future role of quantitative models in financial regulation for which a call for research papers was published earlier this month, and encouraged BSG members to consider submitting papers.
8. The ED mentioned the report on the 2016 annual assessment of EU supervisory colleges which concluded that the level and quality of engagements in supervisory colleges had been further improved in 2016, in particular the quality and depth of the discussions. He also pointed out some rooms for improvement with regard to the assessment of the group recovery plans for cross-border banking groups and the joint decisions taken in 2016.
9. BSG members were informed that the EBA's Chairperson was invited to a public hearing at the ECON Committee together with the SSM and SRB chairs with a view to discussing the update of the new banking legislation package (CRR, CRD, BRRD and SRMR). The ED explained that the EBA was supportive of the package in general, which took into account the EBA input coming from its answers to European Commission's Call for Advice (e.g. market risk) or EBA reports such as the NSFR or Leverage ratio report. Amongst the other topics raised during the public hearing, the ED reported the discussion on the implementation of TLAC requirements and the focus on the scope of its application, questioning whether it was relevant to exclude O-SIIs or preferable to apply them the same treatment as G-SIIs.
10. Regarding resolution issues, the ED indicated that three final Guidelines on bail-in under the BRRD were published on the EBA's website. These Guidelines complemented existing regulation and guidance to facilitate the use of the bail-in power as a way to absorb losses and recapitalise banks in resolution. In particular the Guidelines clarified how valuation information should help determine the terms of the bail-in.
11. The publication of final Guidelines on liquidity coverage ratio (LCR) disclosure was also raised. These Guidelines were meant to provide harmonised disclosure templates and tables for LCR disclosure and to improve transparency and comparability of LCR and other liquidity risk management related information.



12. In the area of Fin Tech, the ED informed that the EBA intended to publish a discussion paper focusing on four dimensions, including i) authorisation and registration regimes (including CRR/CRD, EMD, PSD, MCD and national regimes, “sandboxing”/“innovation hub” schemes); ii) risks and opportunities for credit institutions, payment institutions and electronic money institutions, iii) impacts on the business models of credit institutions, payment institutions and electronic money institutions and iv) consumer protection and retail conduct of business issues.

B) EBA’s Update on Risks and Vulnerabilities

13. EBA staff introduced the discussion through an overview of the main risks. No major changes were identified compared to the previous quarter except a negative outlook in terms of interest rate and a more positive trend in funding conditions.

14. With regard to the capital position of banks, EBA staff observed that there was a positive trend, the level of CET 1 ratio raising by 70bps from end-2015 to end-2016 to reach 14,2%. It was indicated that Risk Weighted Assets (RWAs) continued to decrease despite capital levels remaining stable.

15. In terms of asset quality, the situation was reported to be more positive as the stock of Non-Performing Loans (NPLs) was on a downwards trend in Q4 2016. However, the geographical dispersion of NPLs showed slow progress in certain countries.

16. Regarding profitability, it has decreased to the lowest point since end-2013. The average return on equity (RoE) in 2016 decreased to 3.3%, 120 bps below 2015. In 2017, EBA staff was concerned by the developments of RoE. Decreasing revenues, lower Net Interest Income (NII), lack of efficiency triggering expenses and persistent impairments for loan losses were presented as the main drivers of lower profitability. In parallel, the gap between return on equity and cost of equity (CoE) was widening.

17. On the funding market, EBA staff observed the strong issuance of debt especially unsecured debt instruments. The strong demand for European bank debt was explained through the need for some “pre-funding” because of political risks due to upcoming elections.

18. BSG members commented the EBA’s presentation on risks and vulnerabilities. They asked questions on banks’ weak profitability, seeking information on the drivers of a decreasing RoE, making links between the recent Oxfam report on European banks and tax havens and the situation of low profitability. They also raised their concerns about NPLs urging the EBA to develop guidance on asset valuation.

19. EBA staff replied to methodological questions, also referring to the full report to get further information. About a possible relaxation of regulation to improve banks’ profitability, EBA staff viewed that it would improve the valuation of equity only in a short

trend but it would weaken the global framework and would not provide any benefits for valuation of equities for the whole banking sector.

20. On NPLs, EBA staff observed that the recovery period was different across the EU and also mentioned slow judicial systems and recovery procedures as main drivers of high NPLs. EBA staff informed that the EBA has received a mandate from the Commission to develop data requirements for NPLs due diligence. EBA staff also stressed out that the setting-up of an EU Asset Management Company (AMC) might be a key component of the toolkit to deal with the high stock of NPLs in the EU.

Item 4: Consumer Protection, Financial Innovation and Payments

21. EBA staff presented the 12 mandates assigned to the EBA by the Payment Services Directive 2 (PSD2) and the Interchange Fee Regulation (IFR) and explained the milestones reached for each of them. EBA staff concluded that the EBA's work was on track according to PSD2 requirements, except on the implementation of the EBA register, which may not be operational yet by the application date of PSD2 on 13 January 2018.

22. One BSG member highlighted the need for better coordination between the various mandates and showed the links between some mandates, in particular the RTS on Central Contact Points and the RTS on home-host coordination under PSD2. EBA staff responded that the interdependencies between the two mandates was well known, and that the EBA was aiming to publish them for consultation at the same time, so that external stakeholders would be able to take a view on both of them.

23. EBA staff introduced the EBA's Consultation Paper on the Guidelines on operational and security risks under PSD2, which was due to be published by the end of May. BSG members asked for clarification about the definition of "operational risk", to which EBA staff responded that there was no clear definition of operational risks in the PSD2 itself, and that, for the purpose of this Consultation Paper, a description, rather than a definition, was included in the Guidelines.

24. EBA staff provided a progress update on the 2017 Consumer Trends Report. In particular, EBA staff recalled that the Consumer Trends Report that the EBA would be likely to be publishing would be lighter than the editions of previous years due to the resource constraints flagged at the previous BSG meeting. In terms of methodology, EBA staff explained that a questionnaire was sent to the 28 CAs and to 50 national consumer associations and that the EBA received responses from 22 NCAs but only 10 consumer associations. As a result of this turnout, the structure of the report would have to be different to what was envisaged and would be split into two parts, one covering the core products in the EBA's scope of action and another one detailing the topical issues observed by consumers and CAs. The report is expected to be submitted to the BoS in late June.



25. BSG members asked whether the EBA could share the report with the BSG before submission to BoS with a view to providing possible comments. EBA staff agreed provided that comments were sent swiftly in order to comply with the planned timeline and the EBA's internal process of submission. Another BSG member called for a change to the process implemented for future years in order to give consumer associations more time to provide their inputs. EBA confirmed that this should be possible, provided EBA will be allocated resources to publish the report in future years.
26. EBA staff then continued with presenting a progress update of the EBA mandates under the Payment Account Directive (PAD), explaining the different steps of the EBA's work, starting with the Guidelines on national provisional lists of the most representative services linked to a payment account and subject to a fee, and ending with the Technical Standards on the standardised terminology for the most common services linked to a payment account and the standardised presentation format of the fee information document (FID) and its common symbol as well as the standardised presentation format of the statement of fees (SoF) and its common symbol. EBA staff informed that the responses received to the consultation paper on standardised terminology and on draft FID and SOF ITSs led to some changes to the previous draft.
27. BSG members asked further clarification on the list of services provided and to what extent this information might be useful for consumers. EBA staff clarified that the PAD did not mandate the EBA to provide a list of services, but that further details were included in the final report. It would be up to CAs to do so and to inform the EBA of this list. EBA staff also made clear that the disclosure documents can be provided not only in hardcopy and PDF but also electronically, e.g. via apps.
28. The BSG Vice-Chair presented a position paper on Dynamic Currency Conversion (DCC). He provided a definition of the phenomenon and explained how it works, what are the potential advantages for consumers in the view of some businesses and the certain disadvantages for consumers. He explained also why merchants are interested to promote DCC. He also presented several concrete cases. He informed that the European Commission had included this topic in its Retail Action Plan and suggested possible follow-up actions for the EBA, including the issuance of a warning and an official letter to be sent to the EBA's chairperson.
29. Some BSG members viewed that this topic might merit being introduced in the Consumer Trends Report. One BSG member was of the view that DCC may be cheaper in certain cases so that it should not be completely banned and a flexible approach should be applied. BSG members agreed that consumers should at least be informed of the potential problems arising from DCC.
30. EBA staff concluded that there were potential risks from a consumer's perspective if the rate applied was excessive. With regard to the possible follow-up actions for the EBA, legal hurdles prevented the EBA from banning DCC. Although it was also specified that



neither CAs nor the national consumer associations (with one exception) flagged DCC as an issue in the survey sent by the EBA, EBA staff agreed to include the topic in the Consumer Trends Report, provided that this addition was approved by the relevant EBA committees during the governance process.

Item 5: EBA Update on other regulatory deliverables

A) EBA Recommendations on Outsourcing to Cloud Service Providers

31. EBA staff introduced the EBA Recommendations on outsourcing to cloud service providers by a definition of cloud services. Business opportunities triggered by cloud services for financial institutions were also presented as well as challenges in terms of security and governance, compliance with applicable legislation and data protection rules, and dependency on a single cloud service provider. EBA staff explained the reasons for developing EBA Recommendations on cloud outsourcing and stressed the objective of achieving greater harmonisation and convergence of supervisory expectations on cloud outsourcing. The scope of the draft recommendations was presented, with a focus on some critical issues such as how to assess materiality of cloud outsourcing, security of data and systems, and chain outsourcing. In terms of timeline, the draft recommendation would be subject to a three-month public consultation after the BoS approval due in May. The recommendations on cloud outsourcing were expected to be published in December 2017 and their effective application would start mid-2018.
32. One BSG member questioned the relevance of the draft recommendations focused on the financial industry, arguing that requirements applied to financial industry were stringent and potentially detrimental to institutions. Another member sought clarification whether the draft recommendations included some requirements with regard to skills and the control function of the bank. Concerns were raised about the discrepancy of negotiation positions between big cloud providers and individual financial institutions. Questions on the geographical location of cloud services and coordination with SSM were also raised.
33. EBA staff clarified that the draft recommendations were in line with the EBA's mission to ensure financial stability. EBA staff mentioned that institutions had already taken measures to manage cloud risks at the request of CAs. Consequently, the gap between the current contract and the recommendations provided by the EBA should not be too significant and costly. Furthermore, the EU-wide recommendations are expected to allow institutions to weigh more on contract negotiations with big cloud providers. EBA staff indicated that the draft recommendation contained guidance on skills and specific paragraphs on control functions. It was also noted that business continuity was an important part of the guidance as well as issues on geographical location. EBA staff also clarified that SSM was very much involved in the EBA's work on cloud outsourcing.

B) Pillar 2 Roadmap

34. EBA staff informed of the need to update the common European framework for the SREP in 2017-2018 to reflect the changes in the Basel IRRBB framework and ongoing policy initiatives affecting Pillar 2/SREP, in particular supervisory stress testing and use of its outcomes in capital adequacy assessment. Consequently, it was reported that the EBA planned to update the following regulatory products: SREP Guidelines, IRRBB Guidelines and its Stress Testing Guidelines.
35. With regard to the update of the SREP Guidelines, EBA staff mentioned the areas where the Guidelines would be amended to include: introduction of Pillar 2 Capital Guidance (P2G) and supervisory stress testing, further details on supervisory assessment of banks' stress testing, alignment with supervisory assessment of IRRBB with the revision of the IRRBB Guidelines, clarification of certain aspects of the scoring framework, improvement of articulation of total SREP capital requirements (TSCR) and overall capital requirements (OCR). In terms of timeline, the consultation paper was expected to be published by the end of 2017 and implementation was planned for 2018.
36. Regarding the IRRBB Guidelines, EBA staff noted that it would be the first step in the implementation of the revised Basel IRRBB framework in Europe and expected a clarification of definitions and an expansion of the scope of the guidelines to include credit spread risk in the banking book. Several updates were also mentioned such as an update of parameters and assumptions of the supervisory standard shock, standardised interest rate shock scenarios, and requirements on internal governance arrangements.
37. As for Stress Testing Guidelines, EBA staff commented on the possible amendments including more details on reverse stress testing, links between solvency and liquidity stress test, links between stress testing recovery planning.
38. Some BSG members questioned about the reasons for banks to not disclose P2G. Another member raised his concerns about the introduction of a tighter outlier test as an automatic tool in the revised IRRBB Guidelines noting the ongoing debate on the proposed CRD revisions.
39. EBA staff acknowledged the concerns regarding the outlier tests and these are known, and explained the reasoning for not communicating on P2G. In particular, it was mentioned that P2G was a non-legally binding supervisory instrument having no relevance for distribution restrictions (MDA), and therefore there was no direct need from prudential perspective for its disclosure. However, banks need to consider its disclosure from the transparency and market abuse perspective and prudential supervisors cannot prohibit banks from the disclosure of P2G in general.

C) Discussion on the ESAs review

40. EBA staff presented the European Commission's public consultation on the operation of the ESAs, flagging the main issues raised in the document, namely scope of tasks and powers given to the ESAs, their governance structure, supervisory architecture of the three ESAs and funding issues.
41. Regarding tasks and powers, BSG members stressed that ESAs should get more powers. In particular, the ESAs could also be entrusted with some research functions. They also viewed that ESAs should be more accountable on Level 3 legislation, in particular on Questions and Answers (Q&As) which may have a material impact on institutions. Regarding the organisation of the ESAs, BSG members did not see any added value for change in the coming months. They deemed that much more time was needed to assess the benefits of structural changes such as merging the three ESAs or moving towards a "twin peaks model". One member suggested setting a supervisory agency focused on consumer protection or at least expanding the ESAs' mandate in this area. Another member stressed that the twin peaks model is appropriate for supervisory agencies, but the ESAs are rather focused on regulatory functions.
42. With regard to the ESAs' funding, some members considered that ESAs should be financed by the industry while other members would prefer a public funding. However they all agreed on the need for appropriate financial resources to enable ESAs to fulfill their mandates.
43. The ED presented the EBA's tentative position, to be reflected in a draft EBA Opinion submitted to the Board of Supervisors' approval. In terms of powers, he mentioned the areas where the EBA saw some rooms for improvement such as reporting, review of capital instruments and supervisory convergence
44. The BSG decided to send a response to the consultation, as well as a Joint Statement with the three other ESAs SGs.

Item 6: Discussion on topics presented by BSG members

A) Central Bank Digital Currencies

45. BSG Chairperson introduced this item, stressing out that the development of blockchain technology in recent years provides the opportunity to develop an alternative to cash in the form of central bank digital currencies (CBDCs). Amongst the goals of the issuance of CBDCs, it was noted that they would improve interbank settlement, digitize cash to improve efficiency in payments, develop a new monetary policy tool to overcome zero-bound interest rates, increase supervision and reduce financial instability.

46. BSG chairperson focused on the main features of physical cash (peer-to-peer exchangeability, universality, anonymity) that would evolve into new parameters to define CBDCs, namely access, anonymity and yield. He also explained the four main scenarios from less to more disruptive. He concluded that the less disruptive scenarios were more likely because of their ease of implementation and because of the uncertainty of the impacts and potential costs of the most disruptive scenarios. Surprisingly, literature on the topic has focused so far on the most ambitious options. He suggested that central banks might want to move forward with gradual testing and implementation.

47. One BSG member asked clarification about certain scenarios and the difference between private and digital currencies in this model. Another member linked this issue of CBDCs with the current development of blockchain technology.

B) Consumers' perception of retail banking

48. One BSG member presented a survey commissioned by the British Bankers' Association (BBA) on how British retail customers view banks. The results of the survey were shared with BSG members. In a nutshell, consumers' attitude toward banks was considered globally positive, in the sense that they trusted their own bank to a greater extent than banks in general. Progress was seen as slow and the banking sector not proactive to conduct reforms.

49. The survey revealed that the most trusted individuals in banks were cashiers at the local level, but fewer people trusted chief executive officers (CEO) and traders. It was also observed that people mentioned fraud as a key issue for consumers. At the same time, most of surveyed people considered their own bank as trustworthy and convenient, in particular welcoming online access to accounts and banking services and mobile banking in general.

50. With regard to the banking reforms that had taken place since the crisis, the highest ranked changes were protection of consumers' money, ability to claw back salary and bonuses from bankers and stricter supervision of banks through UK and EU regulations. It was also reported that the survey indicate that to further increase trust in the banking industry banks should do more to tackle fraud, outline plans to reduce any potential negative impact from the UK leaving the EU and make it easier for people to get onto the property ladder.

Item 7: AoB

51. The ED recalled that the next BSG meeting would be held on 5 July 2017.

Participants:

Chair – Santiago Fernández de Lis, BSG Chairperson

Mike	Dailly	Govan Law Centre
Mark	Roach	ver.di
Luigi	Guiso	Eief
Sergio	Iugaresi	italian banking association
Nikolaos	Daskalakis	GSEVEE
Sabine	Masuch	Association of Private Bausparkassen
Martin	Schmalzried	COFACE
Arnold	Kuijpers	Rabobank
Alin	Iacob	Association of Romanian Financial Services Users (AURSF)
Michel	Bilger	Crédit Agricole
Gerda	Holzinger- Burstaller	Erste Group Bank
Giovanni	Petrella	Catholic University, Milano
Christophe	Nijdam	Independent
Giedrius	Steponkus	Lithuanian Investors association
Monika	Marcinkowska	University of Lodz
Jesper Bo	Nielsen	FSU-DK
Søren	Holm	Nykredit
Simon	Hills	BBA



Dominic	Lindley	
Anne	Fily	BEUC
Thaer	Sabri	European Money Association
Ernst	Eichenseher	Unicredit
Emilios	Avgouleas	School of law, University of Edinburgh
Dermott	Jewell	Consumers' Association of Ireland

EBA staff:

Adam Farkas, EBA Executive Director
Piers Haben, Director of Oversight
Philippe Allard
Slavka Eley
Dirk Haubrich
Mario Quagliariello
Lot Anne
Antonio Barzachki
Cédric Coraillon-Parquet
Oleg Shmeljov
Tea Turcaniova
Corinne Kaufman