



EBA BSG 2019 001

Banking Stakeholder Group

13 December 2018

Location: London

EBA-Regular Use

Banking Stakeholder Group meeting – Final Minutes

Item 1.: Welcome and adoption of the agenda

1. The minutes of the last meeting were approved by the former members of BSG 3 who attended the meeting. The EBA's chairperson welcomed new members.
2. All BSG members introduced themselves. Some of them asked clarification about the election of the BSG chair and vice-chair. The EBA's chairperson explained the process for the selection of the chair and vice chair, and noted the criteria used so far such as the neutrality of the chair and vice chair in their role, sufficient time to allocate to this task, geographical and gender balance.

Item 2.: EBA to inform BSG members on general logistics and relevant information regarding their role and tasks

A) EBA staff to present an overview of the EBA

3. EBA staff presented an overview of the Authority, including its internal organisation, decision-making bodies and work programme.

B) EBA staff Presentation on the functioning of the BSG

4. EBA staff presented the role of the BSG, the organisation of BSG meetings, the establishment of BSG's technical working groups, and the duties of BSG members.

C) EBA staff to present on general logistics

5. EBA staff presented the EBA's decision on reimbursement policy addressed to BSG members eligible to reimbursement.
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Item 3.: EBA update on general developments

6. The EBA's chairperson informed of the discussion held at the BoS table about the post mortem exercise on stress test and considerations discussed on how to improve the methodology. Referring to his speech delivered in Bucharest in early December 2018, he suggested possible evolutions in the organisation and implementation of future EBA EU-wide stress tests, taking into account the experience gained from previous exercises. He also mentioned the publication of the transparency exercise and the Risk Assessment Report, which both complement the 2018 stress tests exercise in terms of disclosure of banking data.
7. With regard to the final draft technical standards on the specification of an economic downturn, he explained that these RTS completed the EBA's regulatory review of the internal ratings-based (IRB) Approach in credit risk. In addition, he indicated that the EBA was currently finalising the related Guidelines on the estimation of loss given default (LGD) appropriate for conditions of an economic downturn.
8. Regarding the Basel 3 package finalised in December 2017, he noted that the European Commission addressed a call for advice to the EBA with a view to assessing the impact of the package on EU banks. The EBA's report will be based on data collection from EU participating banks and should be completed by June 2019.
9. The EBA Chairperson informed of the state of play of the ESAs' review proposal, which is still discussed by the European Parliament and Council. He underlined the introduction of an addendum to this package, still under political discussion, to strengthen the tasks of the EBA in terms of Anti-Money Laundering (AML).
10. BSG members had a few questions on the interactions between the EBA's 2019 work programme and the nearly finalised CRR2-CRD5 legislative package. Regarding market risks and the implementation of the FRTB, the EBA's chairperson explained that the reviewed proposal of the BCBS would be submitted to the GHoS in early 2019 for final adoption.
11. The EBA's Executive Director updated BSG members about the EBA relocation process, highlighting some aspects such as the migration of the data infrastructure and support provided to staff. Some members observed that the data migration could be subject to cyber risks and voiced their concerns about the possible staff turnover triggered by the move to Paris.

Item 4.: EBA presentation on the 2018 stress test

12. The Head of Risk Analysis and Stress Testing (RAST) Unit presented the results of the 2018 EU-wide stress tests and highlighted the differences between transitional and fully loaded results in relation to the implementation of IFRS 9 across the sample of banks. He explained the impact on capital and its main risk drivers.
13. He also set out some early lessons learnt of the 2018 stress test, which was seen as a severe exercise given its high impact in terms of CET1 ratio depletion. He flagged that EU banks proved

to be resilient on average also thanks to the stronger initial capital positions compared to previous exercises, although the stress test also confirmed that low profitability remained a challenge for some banks. He also presented some rooms for further consideration with regard to the complexity of the stress test exercise. In terms of methodology, he put forward some elements to be considered and their respective pros and cons, including the static balance sheet assumption, or the use of caps and floors.

14. Some BSG members welcomed the possible introduction of simplification for the next exercise. They also raised their concerns about the methodology. For instance, the methodology was not considered as neutral as expected as it revealed to have a high impact on some retail banks. One BSG member viewed that the sample of banks was too narrow to lead to any strong conclusions regarding the impact of IFRS 9, but it was clarified that conclusions can be drawn to all IFRS banks in the sample and not only to those that chose to apply IFRS 9 transitional arrangements. Another member asked further information on the concentration risks and the EBA clarified how concentration risks are captured in the EU-wide stress test methodology. Another member enquired about the impact of “zombie” companies and the Head of Risk Analysis Unit referred that the credit quality and expected losses of “zombie” companies should be reflected in the risk parameters estimated by banks and therefore were subject to quality assurance by supervisors.
15. In terms of governance, BSG members showed a preference for a bottom-up approach. In this regard, the EBA’s Chairperson clarified that the EBA’s intention was not to move to a top-down approach but to open the discussion. With regard to the move to dynamic balance sheet assumptions, he flagged the need to also consider the consistency and the comparability of results across EU banks. However, he noted that it may be possible to include some degree of dynamism in the methodology.
16. The Head of RAST agreed on the need to reduce complexity where possible. He commented on the liquidation of assets where static balance sheet is used. He pointed out that it was not included in the stress tests, and this was something supervisors may want to consider in the application of the Pillar 2 Guidance. Regarding the systemic dimension of the stress test, he explained that ESRB carries out a survey to look at second round effects of the stress test.

Item 5.: EBA Update on other regulatory deliverables

A) Update on EBA’s work under the revised Payment Services Directive (PSD2)

17. EBA Staff updated on the state of play of the 12 mandates conferred to the EBA under the PSD2, as well as the other PSD2 related EBA work, including the ongoing work on the use of eIDAS certificates and the extension of the EBA Q&A tool to PSD2 related matters.
18. EBA staff also provided an update of the Guidelines on the exemption to the fall back under the RTS on Strong Customer Authentication (SCA) and Common and Secure Communication (CSC),

and in particular on the main changes that were introduced in the final Guidelines published on December 3rd, following the public consultation. EBA staff also outlined how the comments received from the BSG during the public consultation were reflected in the final Guidelines, and the extent to which these have led or not to changes to the Guidelines and the underlying reasoning for it, as described in more detail in the Final report.

19. BSG members asked questions about the ASPSPs readiness to meet the timelines foreseen by the RTS, and in particular regarding the consequences of ASPSPs not being ready to make available the testing facilities by the latest in March 2019, as well as on the publication of statistics on the ASPSPs dedicated interfaces and the ECB proposal to create an European API scheme. One BSG member also questioned whether the EBA would set up a register for third-party payment services providers (TPPs).
20. EBA staff clarified that the RTS required ASPSPs to make available the testing facilities by the latest March 2019, i.e. 6 months before the date of application of the RTS, otherwise ASPSPs who fail to meet this deadline would be in breach of Union law. EBA staff also explained that the timelines for meeting the conditions for an exemption should take into account the need to allow a reasonable time to competent authorities to review and assess a potentially large number of applications. In practice, CAs may need to require ASPSPs to submit requests well in advance of the September 2019 deadline.
21. EBA staff also informed that they intended to establish a working group composed of market participants and competent authorities to support the industry preparedness in the crucial period leading up to September 2019, where issues faced by the market could be surfaced and solutions may be proposed by market participants that competent authorities and the EBA would then further consider. EBA staff informed that a call for candidates for this group would be launched shortly, and explained that this was different from the ERPB group that would focus on the possibility of establishing an API scheme at EU level and identifying the key elements of such a scheme.
22. On the publication requirement for ASPSPs, EBA staff explained that the requirement for ASPSPs to publish statistics on the levels of availability and performance of both their dedicated interfaces and customer-facing interfaces was mandated in the RTS and that the Guidelines provided further details on how ASPSPs were required to meet this requirement for the purpose of an exemption from the fall back mechanism.
23. Regarding the question on the TPP registers, EBA staff explained that the authorisation/registration status of TPPs was shown in the registers held at national level, and that further centralised data would also be available in EBA register under Article 15 of PSD2, which was expected to be operational from end of January 2019.

B) EBA Update on Guidelines on ICT risk management for institutions

24. EBA staff presented the new set of Guidelines on ICT risk management, which would repeal the previous Guidelines on security measures for operational and security risks. Unlike the latter, the new Guidelines would also cover credit institutions (for activities other than payment service and investment firms). EBA staff also explained the broader scope of these Guidelines as well as the next steps. BSG members were informed that the public consultation would be published shortly for a three-month period closing in March 2019.
25. One BSG member asked whether EBA staff had taken into account the proportionality principle in the ICT risk management. He voiced his concerns about possible contradiction between EBA and ECB requirements with regard to ICT risk management. He also flagged possible increase of capital requirements to cover ICT risks.
26. Another BSG member asked further clarification on the scope of risks and whether the new Guidelines took into account the Guidelines on outsourcing. Additional questions focused on the comparability of the EBA's framework with the insurance sector and whether EBA staff envisaged the possibility to issue joint Guidelines with EIOPA.
27. EBA staff explained that these Guidelines took the proportionality principle into account, specifically based on the wording used in the published Guidelines on security measures. Regarding the parallel work carried out by ECB/SSM, it was explained that the two institutions had aligned their work and there should not be any contradicting requirements. It was noted that compared to the Guidelines on outsourcing, these Guidelines focused on the necessary ICT security objectives when outsourcing or using third parties.
28. EBA staff also mentioned that the EBA started working on this issue ahead of EIOPA. Globally, there would not be joint Guidelines but the ESAs were requested to draft guidelines on this topic in the European Commission FinTech Action plan and therefore EIOPA and ESMA were also aware of the need to do so.
29. The EBA's Chairperson proposed to publish some guidance to explain the areas where some changes have been made in order to identify them easily.

C) EBA's Handbook on valuation for resolution

30. EBA Staff presented the Draft Handbook on valuation for resolution. It was noted that the Handbook was drafted in accordance with the existing EU legal and regulatory framework and addressed to resolution authorities. EBA staff explained the three types of valuation, stressing out the differences between valuation 1 which is an accounting valuation based on fair and realistic assumptions, aimed at assessing whether conditions for resolution are met; valuation 2, which is an economic valuation, supports the decision on adoption on resolution tools, and valuation 3, a gone concern valuation, to be performed after the execution of resolution and based on the "no creditor worse off" principle. BSG members were informed that EBA staff engaged with stakeholders such as valuers, accountants, rating agencies and the European Banking Federation to collect technical views on the Handbook.

31. BSG members welcomed this important step forward, underscoring the critical role of valuation in resolution. Some members made comments on the measurement bases of valuation, as well as on the consistency of the disposal value with the real economic value under the State aid framework.
32. The EBA's chairperson flagged that the three types of valuation (ie valuation 1, 2 and 3) are a legal requirement arising from the BRRD and RTS on valuation in resolution. He made clear that this Handbook intended to explain how to apply the rules and not to create new rules.
33. In response to BSG member comment that values are dynamic and change continuously, EBA staff clarified that according to the regulatory framework valuation uses a static reference consisting in the valuation date, which has to be as close as possible to the resolution decision date. It was noted that valuation had to be performed at economic value in accordance with the applicable rules set out in the RTS on valuation before resolution and that economic value, in some instances, for instance Level 3 assets, may coincide with fair value.
34. Regarding the status of eligible liabilities owned by pension funds, it was explained that the exclusion of the bail-inability of such liabilities is not a valuation issue and is not dealt with by the Handbook. The Handbook fulfils several goals, such as supporting resolution authorities in the implementation process, including increasing the level of expertise and familiarity with the complexity of valuation matters. With regard to the transfer of assets to a bridge bank, EBA Staff clarified that the transfer should be done at disposal value. The expected lifetime of the bridge institution has not a significant impact on the value of the transferred assets.
35. EBA staff also emphasized the need for further harmonisation to reconcile valuation before resolution and valuation after resolution. Indeed, valuation 2 is not related to a specific geographical scope, while valuation 3 is linked to national insolvency law.
36. BSG members were requested to provide their views on the Handbook.

Item 6.: BSG member presentation on consumer rights and terms in Danish mortgage lending

37. One BSG member presented the principles of Danish mortgage lending. Under these principles, he showed that there is a direct match between the loan which a homeowner raises with the mortgage bank and the bonds which a mortgage bank issues to fund the loan. He explained that commercial banks funded their mortgage loans by way of covered bonds. He indicated that the interest rate of a mortgage loan and the prepayment price directly reflected the price of the mortgage bonds funding the loan. As the bond rates are public, he viewed that the Danish mortgage market was transparent and customer-oriented. He concluded on the benefits of this market by flagging that the interest rates were low, and prices competitive.
38. BSG members welcomed the presentation, noting in particular that this framework appears consumer-friendly.

Item 7.: AoB

39. The EBA's chairperson informed that the End Term of Office report of BSG 3 had been published and recalled the dates of 2019 BSG meetings.

Participants

BSG:

Gerda	Holzinger-Burgstaller	Erste Group Bank AG	Austria
Hervé	Guider	European Association of Co-operative Banks	Belgium
Søren	Holm	Nykredit	Denmark
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Sabine	Masuch	Association of Private Bausparkassen	Germany
Sergio	Lugaresi	Italian banking association	Italy
Lara	De Mesa Garate	Banco Santander	Spain
Jean	Naslin	Caixa Bank	Spain
Thaer	Sabri	Electronic Money Association	UK
Anne	Fily	Finance Watch	Belgium
Martin	Schmalzried	COFACE-Families Europe	Belgium
Dermott	Jewell	Consumers Association of Ireland	Ireland
Tomas	Kybartas	Alliance of Lithuanian consumer organisation	Lithuania
Vinay	Pranjivan	Portuguese Consumer Association (DECO)	Portugal
		Association of Consumers and User of banks, saving banks, financial products and insurance (ADICAE)	
Victor	Cremades Erades		Spain
Mike	Dailly	Govan Law Centre	UK
Lyubomir	Karimansky	Independent	Bulgaria
Giedrius	Steponkus	Lithuanian Investors association	Lithuania
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