END OF TERM OF OFFICE REPORT (ETOR) OF THE EBA IV BANKING STAKEHOLDER GROUP (BSG IV)

Final draft – 06 July 2020

1. PREFACE

On behalf of the Banking Stakeholder Group (BSG) of the European Banking Authority (EBA), we are honoured to present this Fourth End of Term Office Report, covering the period between November 2018 and June 2020. The BSG is the EBA's officially designated advisory group. It is composed of thirty members from six constituencies: credit institutions, consumers, academics, users of banking services, employees of credit institutions, and small and medium-sized enterprises. The diversity of the group's composition is a key asset to achieve multidisciplinary and rich outputs from different perspectives. Such diversity provides a unique and balanced perspective, to ensure regulation is adapted to the needs of all stakeholders involved, in order to achieve financial stability and consumer protection.

BSG IV was terminated prematurely because of the implementation of the ESA's Review. In the period under review, the EBA continued developing regulations to ensure a Single Rulebook for the EU banking sector and for monitoring risks to financial stability, as well as developing a common supervisory culture. It did so in the context of progress towards banking union, but with a few vulnerabilities remaining in the European banking sector and given the adverse impact of Brexit in the background. In February 2020, the EBA had to respond to the COVID-19 crisis with exceptional measures that ranged from the relaxation of rules and introduction of guidance to moratoria.

With the purpose of providing valuable inputs and advice to the EBA, the BSG has been very proactive in providing strategic and technical advice to support the institution in achieving its mission and goal. Five technical working groups (TWGs) have been active in producing opinion papers and responding to consultations and the exceptional work stream imposed by the COVID-19 crisis.

The report we present now describes the role and functioning of the BSG and summarises the work of the five technical working groups, as well as other relevant activities of the Group. Some lessons, challenges and recommendations for the future are presented in the final chapter. In presenting this report, we are following the precedent of the previous BSGs, from whose lessons and experience we have benefitted. We expect that this report will help future BSG members to improve the functioning of the group and its contribution to the EBA's endeavours.

Rym Ayadi (Chairperson) Sergio Lugaresi (Vice-Chairperson)

2. INTRODUCTION

The ETOR aims to summarise the contributions of the Banking Stakeholder Group (BSG) in its role in supporting the EBA in achieving its missions, goals and tasks. The EBA’s main purpose is the full implementation of the European Single Rulebook for the banking sector, a set of homogeneous prudential rules that has three main goals: a level playing field; safeguards for depositors, investors and consumers; and greater supervisory convergence. This is the fourth edition of the ETOR, covering the period November 2018 and June 2020.

The three previous reports covered the periods from March 2011 to September 2013, October 2013 to April 2016 and May 2016 to October 2018 and were the result of the valuable work of the BSG I, BSG II and BSG III members, respectively.

The first ETOR was an important milestone. It covered five principal areas: the appointment, structure and membership of the BSG; its working methods and its interaction with the EBA; the development of the technical working groups (TWGs); the output of the BSG; and emerging themes. The second ETOR had a similar structure and also included a new section on recommendations for the future. The third ETOR provided new activities, including the joint work of BSG III with the three other stakeholder groups (SGs) of the European supervisory agencies (ESAs); the creation of two new TWGs (One on payments, digital and FinTech and another on supervision, governance, reporting and disclosure); the production of a report on regulatory sandboxes (a key piece of the EBA’s Roadmap on FinTech). The fourth ETOR emphasises the following activities: the introduction of a new TWG on sustainable finance, maintaining the previous TWGs that were set up in BSG III (whilst consolidating the capital, liquidity, recovery, resolution and risk in one of the TWGs); the creation of three additional TWGs, led by the Chair and Vice Chair on bank business models and proportionality, AML/CFT and a COVID-19 recovery; the response to ESAs’ review (separately and jointly with the other stakeholder groups); active production of opinions on the TWGs and participation in EBA consultations and other activities (e.g. EBA research workshops). There are also essential developments worth mentioning in this report that impacted the normal course of activities of BSG IV, mainly the reallocation of EBA headquarters from London to Paris as a result of Brexit, the implementation of ESAs’ review, the COVID-19 crisis and the subsequent disruptions. Regarding the reallocation, operational and logistical issues had to be dealt with. The ESAs’ review that came into effect in January 2020, was marked by the reduction in the number of academic members from 9 to 4 and the premature termination of BSG IV (June 2020). The COVID-19 crisis introduced fresh disruption to the BSG IV activities. Between March and June 2020, the group produced two opinions on the subject. The first opinion paper was on how to manage this external shock and the second paper on the assessment of exceptional banking measures and the path towards recovery. Operationally, one BSG IV meeting was held online. The COVID-19 crisis has put on hold significant challenges facing the financial industry, consumers and supervisory authorities. Exceptional regulatory measures were put in place in record time. European banks, which were relatively prepared to face this new shock, have been the main channel for maintaining funding for the real economy and keeping basic payment services functioning during lockdown, in the context of exceptional mobility restrictions and social distancing imposed on European citizens. The COVID-19 banking measures ranged from the relaxation of regulatory requirements, including the use of buffers, the reintroduction of state aid and public guarantees, the introduction of payment moratoria on interests on loans and mortgages.

In the implementation phase, a preliminary assessment by BSG IV reveals risks of fragmentation due to regulatory uncertainty, increasing indebtedness for individuals and corporations, leading to increasing NPLs and imminent threats to financial stability in a highly uncertain environment, where the shape of the recovery is unknown. At the same time, the impressive increase of digitalisation in financial services, as a response to the COVID-19 mitigation measures, has increased the risk of cyber security, fraudulent transactions and crime, to the additional detriment of consumers and increasing the need for decisive action on consumer protection. Regulators, supervisors and stakeholders need to work closely to preserve financial stability, consumer protection and the single market.

The EBA has shown an impressive capacity to adapt to the changing and challenging environment since its creation in January 2011. The challenges have been huge, amongst them the financial crisis and its impact on EU banks, the overhaul of global and European banking regulation, the progress towards banking union and the ensuing institutional changes, Brexit, the FinTech revolution, the completion of the banking union and the COVID-19 crisis and recovery, with the emphasis on sustainable finance. We are sure that the EBA will continue responding to these challenges in a proactive and efficient way and the BSG stands ready to assist the EBA in facing them. This report is our contribution to ensuring that the legacy of the current BSG is passed on to future members.

3. ROLE AND FUNCTIONING OF THE BSG

The BSG is officially designated as the EBA's advisory group in Article 37 and Recital 48 of the Authority's Founding Regulation. Its role is to help facilitate consultation with stakeholders in areas relevant to the EBA tasks, according to the Rules of Procedure of the BSG.

The Group is consulted on regulatory technical standards and implementing technical standards, as well as guidelines and recommendations, whenever they do not pertain to specific financial institutions at an individual level. We are empowered to express our opinions - at the request of the Authority or on our own initiative - and advise the EBA on all the issues linked to its mission, especially those related to the achievement of a common supervisory culture; peer reviews of competent authorities and the appraisal of the most relevant market developments. Finally, the BSG has the option, if appropriate, of examining presumed breaches or non-implementation of EU Laws.

As commented on before, BSG IV has focussed its efforts on the implementation of some of the recommendations for the future of the ETOR III[1]. It has also attempted to be more prospective and active in anticipating the Authority's future needs. Furthermore, we have done our best to provide a more strategic vision towards helping the EBA in the achievement of its goals and objectives. ….

BSG IV is composed of 30 Members with diverse backgrounds and expertise: credit and investment institutions, consumers, independent top-ranking academics, users of banking services, employees' representatives from credit and investment institutions and small and medium enterprises. This diversity, in terms of analysis and expression of opinion, represents the BSG's most meaningful asset in terms of human capital. The total output is significantly more valuable than the sum of all of its parts.

Members serve in their personal capacity, at the time of their appointment envisaged for a period of two-and-a-half years. There is the possibility to serve for a maximum of two successive terms. The appointment of the Group's members is made by the EBA Board of Supervisors (BoS)[2].

The EBA's Founding Regulation establishes a minimum of 4 BSG meetings per year and more frequent meetings are allowed. Members of ESAs and the EC are invited to attend the Group's official meetings. In addition to that, there is a formal requirement of twice-jointly BoS & BSG meetings per year.

BSG IV held a total of 7 meetings, 3 of which have been BSG Member sessions and 2 joint meetings with the EBA Board of Supervisors. The physical meetings are very important but, it has to be highlighted, that Members invest significantly more time on BSG related tasks than on those from the meetings. Amongst other things, we periodically schedule conference calls to jointly agree with the Authority on the agendas for all the meetings, well in advance. We analyse and discuss drafts of our submissions to the EBA consultations. Written procedures and, when necessary, teleconferences are made to ensure there is an appropriate discussion that takes into account all members' views and sensitivities. We generally aim at consensus positions, since we think that this is where the added value of the BSG lies, compared to other contributions

[1] See https://eba.europa.eu/sites/default/documents/files/documents/10180/17417/e6a96106-ffa8-45bc-9344-27a60a3ce1e2/End%20of%20term%20of%20office%20report%20of%20the%20EBA%27s%20Banking%20Stakeholder%20Group%20-%208%20...pdf

[2] According to article 37(3) of the EBA's Founding Regulation

from industry associations, consumers' associations or other stakeholders. But when a consensus position is not reachable, we include minority dissenting views in our reports.

The BSG is occasionally asked for advice by the Authority before releasing a public consultation or when in its early stages, either in the BSG meetings or in a written procedure. Last but not least, as stated before, we can produce notes or reports on our own initiative.

A typical agenda of a BSG meeting includes an update on the latest developments in the EU banking sector, presentations by the EBA and BSG members on the most relevant regulatory and supervisory issues (followed by a discussion); and an update on the next regulatory deliverables by the EBA. The agendas of the BSG and the minutes of its discussions are published on the EBA website.

BSG IV has organised its work around five Technical Working Groups: Capital, Liquidity, Recovery, Resolution and Risks; Supervision, Governance, Accounting, Reporting and Disclosure; Consumer Protection; Payments, Digital Fintech and Regtech; Sustainable Finance.

During the December 2018 - June 2020 period, we have provided several responses to EBA communications and consultations on stress tests and COVID-19 measures, 1 BSG letter and 1 joint letter with ESMA and EIOPA's SGs on the ESA's review sent to the EU authorities, 3 position papers, one on Sustainable Finance, one on the finalisation of Basel 3 reforms and a further one on COVID-19 banking measures and recommendations towards a sustainable recovery. The BSG members were active in participating in EBA research seminars and in the FISMA consultation about COVID-19 banking measures.

To conclude this section, the BSG has also been actively participating - as requested by the EBA - in the Q&A implementation review. The Q&A tool aims at ensuring a consistent and effective application of the new regulatory framework across the Single Market, hence contributing to the building of the Single Rulebook in banking.

4. The ESA's Review and the termination of BSG IV

A letter on the ESA review was drafted to share its opinion, in particular, on the change in the composition of the Group.

The BSG expressed its discontent about the reduction in the number of academics, from at least 5 to exactly 4 and about the fact that such important changes have been decided upon without prior consultation. These changes are not only **highly disruptive,** as they do not allow the smooth continuity of the Group's activities, but they are also legally contentious.

Current art. 37 EBA Regulation:

> "*The Banking Stakeholder Group shall be composed of 30 members, representing in balanced proportions credit and investment institutions operating in the Union, their employees' representatives as well as consumers, users of banking services and representatives of SMEs. At least five of its members shall be independent top-ranking academics. Ten of its members shall represent financial institutions, three of whom shall represent cooperative and savings banks"*

Amended art. 37 EBA Regulation:

> *"The Banking Stakeholder Group shall be composed of 30 members, **13** members representing in balanced proportions credit and investment institutions operating in the Union, three of whom shall represent cooperative and savings banks, **13** members representing their employees' representatives, consumers, users of banking services and*

*representatives of SMEs and **four** of its members shall be independent top-ranking academics."*

The result of this amendment is that the number of academics has decreased from 'at least 5' to exactly '4'.

It should be noted that the BSG IV operated with a higher number of academics than the minimum required by the Regulations. The BSG IV operated with 9 top ranking academics amongst its members.

1 - The change made to reduce the number of independent top-ranking academics, from at least 5 to not more than 4, is *for the worse*.

The role of academics in the BSG is very important for different reasons.

First, academics are able to provide expertise and background, to undertake informed assessment based on research, to perform critical independent thinking on the exact scope and content of the rapidly changing regulatory framework, in a neutral and forward-looking way. This is essential to achieve evidence-based policy and regulation.

Second, and probably even more important, the independent academics typically take up the role of mediators. Their neutrality, expertise and skills in drafting nuanced texts indeed facilitate the redaction of common positions.

Third, academics can contribute to the EBA's workshops[3] and seminars as discussants and chairs and provide independent academic insights and policy informed discussions.

2 - The composition of the BSG has been changed without consultation. This violates the principle of good governance and expressly requires the Legislative Authorities to consult the Stakeholder Groups before changing their operations.

Moreover, the change of composition of the Group before their usual term is highly disruptive. The entry into force of the revised EBA regulation does not, as such, annul or render void the decisions by which the current Stakeholders Group's members have been appointed; nor does the compliance with the revised Regulation entail that the EBA proactively decides to terminate, by anticipation, the mandates of the current Stakeholders Group's members. Besides the disruptive effect of such a decision on the functioning of the Group, it encroaches on the legitimate expectations of the appointed members, that they could accomplish their mandate within their respective terms, in the interest of the EBA. In addition, an early termination of all mandates, imposed by the Authority on all BSG members would be a disproportionate measure compared to the "benefit" which can be expected, if any, from the change in the new balance of representatives of the various stakeholder groups, as foreseen by the revised Regulation. The absence of any explicit provision in the revised Regulation forcing such a drastic and immediate change, a unilateral decision by the Authority, to this end, would most probably lack solid legal ground. In a sensible interpretation of the revised Regulation, full compliance should, and can, be perfectly achieved through a phasing-in period, where the new composition of the BSG will be reached through the gradual replacement of the current members, once their mandates come to term.

5. Bank business models, regulation and proportionality

Business models' analysis of banks emerged from the capital regulatory framework in Europe, only after the financial crisis [4] in 2013 and became one of the key elements of the Supervisory Review and Evaluation

[3] For example, at the EBA policy research workshops, academics participate, act as programme committees, discuss papers and chair sessions.

[4] DIRECTIVE 2013/36/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and

Process (SREP), although little is known about this concept. First, there has not been an official definition of what a business model is for a bank, that is commonly adopted by the regulatory authorities and there is only infant research into adopting the model concept into the regulatory framework. Despite this, in Europe, several competent authorities (e.g. the European Central Bank (ECB), the European Banking Authority (EBA) and several national central banks), and globally the Bank of International Settlements (BIS), engaged in identification and assessment exercises of bank business models, based on the supervisory data available to them, in order to better understand the intricacies of this concept and how it can be applicable for bank micro-prudential supervision. In other countries, such as the US and Canada, the business model analysis is not formally enshrined in the regulations.

Adopting a common definition of a business model at a global or regional level will make the use of the business models' analysis of banks for regulatory purposes easier to apply, in order to compare and to better regulate banks, in terms of micro-prudential policy for individual banks and in macro-prudential policy for a group of banks and the banking system as a whole. However, this definition must be easily quantifiable and comparable for ease of application of regulation and supervision.

The bank business models' assessment framework can form part of the broader financial stability assessment framework that specifically includes analysis on the interaction with size and ownership structure, migration of business models, economic performance, risk, the resilience to external shocks, the response to regulation and resolution. These are essential to understand the overall performance of a business model for a single bank, a group of banks and a banking system in a given country or a region.

This bank business models' assessment framework can serve to assess the accumulation of risks over time and how regulation and, ultimately, resolution responds to it for individual banks and for a banking system as a whole. This makes the bank business models' analysis a good tool for better prevention, including micro and macro prudential regulation and for applying the proportionality principle that is essential to maintain a diverse banking system, and whenever resolution occurs.

For **micro-prudential regulation**, when individual banks deviate from the average acceptable risk profile of a given business model and when the response of a bank or a group of banks under a specific business model to regulatory metrics is below what is expected, then a capital add-on can be computed under pillar 2 of the Basel framework, based on the additional risk incurred in the activities and funding profiles of these deviating banks. Applying more regulatory costs on these deviating banks would push high risk banks back to the "healthy" reference point.

For **macro-prudential regulation**, when a group of banks in a country, or a region belonging to a risky business model, are collectively increasing systemic risk, then an additional capital buffer should be applied to reduce the risk accumulation under that given business model. The design of a capital buffer per business model can be equivalent to the one designed for the large systemically important banks.

With time, and in the absence of **regulatory capture** and **forbearance**, a symmetric regulatory approach of capital requirement reductions can be applied for banks that operate under "healthy" business models that are beneficial to allocate and manage risk in the economy. The capital reduction or capital discount can be further researched, to ensure that its computation is carefully independently designed.

The business model analysis is essential in the debate and implementation of proportionality in bank regulation. The set up of EBA Advisory Committee on Proportionality (ACP) to advise the EBA on "*how, in full compliance with applicable rules, its actions and measures should take account of specific differences*

2006/49/EC; and REGULATION (EU) No 575/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

prevailing in the banking sector, pertaining to the nature, scale and complexity of risks, to business models and practice as well as to the size of financial institutions” is a reflection of the importance of this matter.

As a matter of fact, small and medium-sized banks, which are identified as predominantly retail-oriented institutions, seem to concentrate on traditional financial intermediation. There is a presumption, that for these banks, the complexity of Basel regulation would drive compliance costs upward which might, in the long run, hamper their prime role of financing the real economy. Other larger banks, which are identified as investment oriented, having grown too complex because of their market oriented and international nature, might accelerate the accumulation of systemic risk. If this risk is not carefully managed, it might lead to financial instabilities. In addition, as regards resolution, calibrating the main indicators: Minimum Required Eligible Liabilities (MREL) and the Total Loss Absorption Capacity (TLAC) to business models should be explored to ensure that, in the resolution phase, there is no mis-calibration in terms of the risks related to the assets and liability structures of banks, that would be largely detrimental to the overall recovery of the financial system. Moreover, the acceleration of the digitalisation process is expected to transform the banking industry and the traditional business models. Further assessment and monitoring of this dynamic should be on the regulatory agenda going forward. BSG IV initiated a group on these questions to monitor market evolutions and their impact on the regulatory agenda.

6. BSG IV response to COVID-19

Due to the exceptional emergency created by the spread of the COVID-19 infection in Europe, the BSG prepared opinion on how to temporarily adapt prudential and, if necessary, consumer protection regulation, and bank supervision in response to the COVID-19 contagion. On March 12th, the BSG submitted its view to EBA. This health emergency has put at risk the lives of thousands of people in Europe, bringing national healthcare systems under unusual pressure. At the same time, it has hampered world trade and the confidence of households and firms. In addition, the drastic containment measures that governments are taking to limit the contagion and soften the pressures on the healthcare system, have a direct negative impact on various economic activities, such as logistics (including transportation, warehousing, commercial distribution), tourism, fairs, recreation and retail distribution. Firms are sharply increasing teleworking and paid leave, whilst a number of government activities (such as education, justice, etc.) have been suspended. There are already signs that simultaneous demand and supply shocks, hitting a European economic environment that is already marked by signs of slowdown, will have a dramatic impact on European economic growth. Financial markets are already disrupted. As confidence deteriorates further, liquidity may become scarce. Hopefully, this double shock will only last a few months, but the effects may be devastating. According to some base scenarios, the economic downturn may last in Europe until Q3.

In these exceptional and temporary circumstances, the BSG welcomed the Communication issued by the EBA to the competent authorities on the use of the supervisory and regulatory tools that are available (such as waivers, release of buffers, postponement of deadlines), in order to:

1. avoid or limit adverse liquidity effects on European businesses and households;
2. secure the continuation of credit transmission by banks, without major disruption to their prudential status;
3. secure the continuation of payment services, including those provided by payment institutions and electronic money institutions;

The BSG recommended to:

1. allow banks to change the payment schedule of borrowers which are affected by the consequences of COVID-19 (e.g. a moratorium tool for instalment payments for sound borrowers) along with other exceptional measures deemed necessary to minimise the impact of COVID-19 on consumers and SMEs (for instance, exceptional delays in payment, in the event of

a disruption to revenue streams). The moratorium tool would allow banks to restructure the payment schedule of borrowers which are affected by the consequences of COVID-19, without detriment to their prudential evaluation. The moratorium would be applied to viable and resilient firms, which are temporarily facing liquidity challenges due to exceptional circumstances. The moratorium tool shouldn't be used as a way of preventing defaulted exposures from being identified. Accordingly, the EBA should explore the definition of default and consider the possibility of a special treatment of the exposures temporarily affected by the coronavirus situation as it exists, in case of a moratorium by force of law. This should be applied in a consistent manner across member states;

2. ensure that these measures are available and put in place without an increase in costs and burden upon distressed consumers and firms;
3. facilitate the debt restructuring of firms which are in temporary distress but still economically viable;
4. consider supporting the lending capacity of banks, by easing the level of combined buffer requirements (remove/reduce countercyclical buffer and domestic systemic buffers, provide an explicit statement that all buffers are usable to cover losses in stress periods[5]). These buffers have, indeed, been intended to provide room for manoeuvre in crisis situations;
5. consider supporting the ability of banks to use part of the liquidity buffer (which is currently well above the minimum of 100%, and represents more than €1trn) below minimum requirement, in order to provide temporary liquidity to non-financial businesses – without any detriment to the banks' prudential evaluation;
6. establish a clear expiration date for the temporary measures, aimed at stabilising the financial system, together with a plan for a return to compliance with current regulatory requirements.

In addition, the BSG welcomes the decision of the EBA to postpone the current timeline of the 2020 stress test exercise to 2021, in order not to put undue pressure on banking participants.

Eventually, after the emergency is over, the BSG recommends the EBA to foresee carrying out an impact assessment of temporary measures, including their impact on consumers.

More generally, the current situation is an essential test of the resilience of our current monetary and financial system and the efficiency of regulatory and institutional measures in stabilising external shocks. It is a test for the institutional framework to manage a crisis in a powerful and coordinated way, in the best interests of society.

In June 2020, the BSG produced an opinion paper, as part of the consultation with the stakeholders initiated by the European Commission's DG FISMA on 28 May, to take stock and to assess the COVID-19 banking measures adopted by the financial sector in response to the global pandemic, and the challenges from the banking industry and consumers perspectives. On 28 May, both the BSG Chair and Vice Chair represented the BSG group at the DG's FIMSA consultation meeting, after an informal virtual consultation with all BSG members to agree on a common position of the group. On 29 June, the European Commission's DG FISMA discussed the best practices document with all stakeholders involved, after taking into account their written contributions.

An informal virtual discussion was organised between BSG members and the EBA President on 09 June to take stock of the measures adopted by the banking sector, the challenges faced by banks and consumers in view of the actual implementation during the health crisis, and the feedback from the EBA in this regards.

[5] See Bank of England March 11th 2020, "The release of the countercyclical capital buffer reinforces the expectations of the FPC and the PRC that all elements of banks' capital and liquidity buffers can be drawn down as necessary to support the economy through this temporary shock" https://www.bankofengland.co.uk/news/2020/March/boe-measures-to-respond-to-the-economic-shock-from-COVID-19

The BSG opinion paper was finally published on 22 June[6]. The BSG contribution provides an overview of the relief measures by banks targetting consumers and businesses, applied across the EU, together with a better understanding of their features, practical applications, and related problems. It also provides the BSG view on the way forward towards a sustainable recovery.

The BSG recommended that the EBA collects and makes public a full directory of measures implemented, with the view to transparency, encouraging best practice, and facilitating cross-border analysis on banking measures during the COVID-19 crisis in the EU. The BSG warned that the technical implementation of these measures raises a number of challenges from a banking perspective that ought to be carefully considered. These challenges range from regulatory uncertainty and fragmentation and, hence, the BSG urged the need for more guidance and symmetry in order to avoid further fragmentation and discretion that would undermine monetary policy transmission and, hence, the single financial market. Moreover, more balance between multiple regulatory constraints and a clear strategy for managing a surge of NPLs, resulting from increasing indebtedness of individuals and corporate, are needed. From a consumer perspective and in view of the experiences of several countries (e.g. Portugal, Poland and Romania) on the application of moratoria, a number of BSG members supported a standard definition of a moratorium, which would allow holiday periods for loans – mortgage and consumer credit – without accruing interest during that period (six months' minimum). This should be available for any household that applies for it. It should be noted that in some countries, such as France, the suspension or reduction of payments is incorporated in most standardised home loans and consumer loan contracts. Such practices should be encouraged as they can apply, not only in the case of systemic crisis as with COVID-19, but also on an individual basis in case of accidents throughout life, such as disease, divorce, unemployment etc. Another important development relates to fees and charges for services, such as payments and credit transfers, carried out via distant banking services – home banking and mobile. Some banks introduced their own initiative measures to reduce or exempt those fees and charges. This practice was highly welcomed by several BSG members who considered that it should be seen as an example of good practices from the industry side, revealing their understanding and adaption to their clients' circumstances and needs. Also, several BSG members greatly supported measures that would consider a reduction or exemption of fees relating to payment and credit transfers for those who are required to stay at home, or those who have seen a reduction in income or who have become unemployed or furloughed due to the impact of COVID-19. However, other members noted that such measures should be proportionate and take into account the negative impact on bank revenues, to avoid adverse consequences of bank employment policies, as well as avoid further deterioration of banks profitability, an area of weakness amongst European banks, as flagged.

Finally, in order to prepare for the long-term consequences of the COVID-19 pandemic and prepare the road for a sustainable recovery, the BSG recommended that the EBA should prepare policy responses based on several scenarios, situated between the two "extreme" cases (L and W recovery shapes). Moreover, BSG members believe that the recovery should be based on sustainable finance objectives, something which fits well with the attitude manifested in the EBA action plan on sustainable finance.

The two opinion papers published on https://eba.europa.eu/about-us/organisation/banking-stakeholder-group/publications

[6] https://eba.europa.eu/sites/default/documents/files/document_library/Publications/Other%20publications/2020/886673/BSG%20Opinion%20-%20COVID-19%20banking%20measures%20and%20recommendations%20towards%20a%20sustainable%20recovery%20-22%20June%202020.pdf

7. SUMMARY OF THE WORK OF THE FIVE TECHNICAL WORKING GROUPS

Working Group	WG 1- CAPITAL, LIQUIDITY, RECOVERY, RESOLUTION AND RISK	WG2- SUPERVISION, GOVERNANCE, ACCOUNTING, REPORTING AND DISCLOSURE	WG3- CONSUMER PROTECTION	WG4- PAYMENTS, DIGITAL, FINTECH AND REGTECH	WG5- SUSTAINABLE FINANCE
EBA 2019 strategic priorities	- Leading the Basel III implementation in the EU (banking package and EBA new mandates) - Collecting, disseminating and analysing banking data - Fostering the increase in loss-absorbing capacity of the EU banking System (BRRD and EBA new mandates) - Further efforts in implementing the proportionality principle	- Further efforts in implementing the proportionality principle - Strengthening supervisory convergence and integrity of the Single Rulebook.	- Enhancing consumer protection	- Understanding risks and opportunities arising from financial innovation	EU Action Plan on Financing Sustainable Growth, which include: - Incorporating sustainability in prudential requirements. The Commission will explore the feasibility of recalibrating capital requirements for banks (the so-called green supporting factor) for sustainable investments, when it is justified from a risk perspective, whilst ensuring that financial stability is safeguarded. - Enhancing transparency in corporate reporting. - The ESA's Review proposed the inclusion of Environmental, social and governance (ESG) factors in their mandates
EBAs activities	- Capital - Liquidity Risk and interest rate risk in banking books - Loss absorbency - Large exposures Credit Risk - Market risk - Operational risk and investment firms - Recovery and resolution - Risk analysis - Stress testing - Economic analysis and impact assessment	- Accounting and audit - Supervisory review - Internal governance and remuneration - Reporting - Transparency - Loans management and valuation - Ad hoc data collection - Policy coordination and communications - Q&A - Market access, authorisation and equivalence	- Consumer and deposit protection	- Innovation and Fintech - Payment services - Anti-money laundering and combatting the financing of terrorism - authorisation and regulatory sandbox regimes	- Banking markets, securitisation of covered bonds and sustainable finance - collect evidence of undue short-term pressure from the financial sector on corporations
Mission	Monitoring and – when decided – drafting a BSG response on all consultations or discussion papers launched by the EBA related to capital, liquidity, other types of risk management in	To review the EBA consultation papers regarding banking supervision (Supervisory Examination Programmes - SEP -, colleges of supervisors, inspections,	Advising EBA on the preparation, implementation and enforcement of legislation or policy initiatives affecting the users of	Analysing and reviewing the EBA consultation papers dealing with financial technology and innovations, especially in the payments area,	Assist the EBA in planned and potential new activities

	banks and topics related to the BRRD (Bank Recovery and Resolution Directive) as well as associated systemic issues.	authorisations, sanctions, Options and Discretions, transparency, etc.), internal governance of banks and disclosure requirements.	financial services and to proactively identify key issues affecting users of financial services, within the remit of the EBA.	and drafting responses and/or opinions. The WG may also elaborate own initiative position notes on related topics, subject to the approval of the BSG.	
Coordinator	**Søren Holm and Veronique Ormezzano**	**Edgar Löw**	**Vinay Pranjivan**	**Lyubomir Karimansky**	**Herve Guider**
Members	Ángel Berges Sébastien de Brouwer Herve Guider Gerda Holzinger-Burgstaller Sabine Masuch Jean Naslin Giedrius Steponkus	Emilios Avgouleas Gerda Holzinger-Burgstaller Víctor Cremades Erades Herve Guider Søren Holm Marko Košak Monika Marcinkowska Leonhard Regneri Thaer Sabri	Víctor Cremades Erades Mike Dailly Sébastien de Brouwer Monica Calu Anne Filly Herve Guider Dermott Jewell Luigi Guiso Tomas Kybartas Leonhard Regneri Sabine Masuch Martin Schmalzried Thaer Sabri	Emilios Avgouleas Sébastien de Brouwer Monica Calu Lara Ines De Mesa Garate Herve Guider Luigi Guiso Tomas Kybartas Jean Naslin Vinay Pranjivan André Prüm Martin Schmalzried Giedrius Steponkus Thaer Sabri Monica Calu	Emilios Avgouleas Angelo Baglioni Ángel Berges Sébastien de Brouwer Monica Calu Lara Ines De Mesa Garate Gerda Holzinger-Burgstaller Søren Holm Monika Marcinkowska Jean Naslin Andrea Sità
	Rym Ayadi Sergio Lugaresi	Rym Ayadi Sergio Lugaresi	Rym Ayadi Sergio Lugaresi	Rym Ayadi Sergio Lugaresi	Rym Ayadi Sergio Lugaresi

Working Group (WG) on Capital, Liquidity, Recovery, Resolution and Risks

In 2019/2020, the Capital WG worked on the following subjects:

Response to the Draft guidelines on Loan origination and Monitoring

The response was finalised in October 2019 and warned the EBA against an extremely burdensome approach. Whilst the guidelines are based on generally accepted best practices, the requirement to be able to demonstrate that these guidelines are complied with would represent a disproportionate administrative burden, notably for small loans, and disregards the need to adapt credit policies to customer segments and financial instruments.

The guidelines should also focus more on consumer protection and define a clear suitability framework that should apply to both banks and non-banks.

The response also expressed concern that the guidelines go far beyond the initial mandate given to the EBA in the specific context of the EU NPL Action Plan, with the view of reducing the risk of build-up of NPLs due to inappropriate origination practices. The draft guidelines include many aspects that go beyond credit analysis and, notably, include considerations on pricing, ESG criteria, etc… creating de facto rules that go beyond level 1 texts.

Opinion paper on the Post-crisis Basel III reforms finalisation

Following the issuance by the EBA of its answer to the Call for Advice by the European Commission, and the impact study on the implementation of the final Basel III package in the EU, the WG took the initiative of putting together its opinion on this major policy subject.

This Opinion Paper, dated January 31st 2020, is a high-level document summarising discussions held within the BSG Capital and Liquidity Working Group, across banks, academics, and end-users. These discussions took place in particular at a workshop organised by the Working Group on Dec 6th 2019, hosted by CEPS in Brussels. The Opinion was then shared and endorsed by the BSG as a whole.

In particular, it addresses the need to strike the right balance between ensuring financial soundness and an adequate financing of the economy, noting that there remains significant uncertainty about the macro-economic impacts of the reforms. The BSG also noted the progress made in the reliability of internal models, through the EBA IRB repair programme and the ECB TRIM project. Such progress is measured in the satisfactory results of the EBA annual assessment of the consistency of internal models, which shows that the variability of risk weights can largely be explained by the risk profiles of the various portfolios.

It then provides some high-level recommendations on the need to consider European specificities and priorities, notably as regards home loans, SMEs, infrastructure finance, equity holdings, derivatives and proportionality.

It concludes that the European economy would be able to more easily absorb the additional capital requirements linked to the transposition of Basel III, if progress was made in parallel on the Banking Union and Capital Market Union.

Opinion published: https://eba.europa.eu/sites/default/documents/files/document_library//BSG%20Opinion%20Paper%20-%20Basel%20III%20finalization.pdf

The WG has also submitted an opinion paper on the ongoing consultation into the Discussion Paper on the Future of European stress tests. The BSG welcomes the initiative of the EBA to consider methodological changes on the current EU-wide stress test. Almost ten years after the introduction of the first stress test by the EBA, quite a lot of experience has occurred that should be incorporated to strategically further develop the stress test. The BSG agrees with the EBA, that there is room for improvement in both conceptual and practical areas. At the time of publication of this report, the opinion paper was not yet published.

Working Group (WG) on Supervision, Governance, Accounting, Reporting and Disclosure (SGARD)

Objective of Group Supervision, Governance, Accounting, Reporting and Disclosure

The WG works as a technical working group in the strategic areas of development in supervision, which has always been a core topic for the EBA, in governance, including remuneration, where the government structures in banks have evolved, but there is still room for more robustness in certain areas and banks, in accounting and auditing, where the first time application of the new accounting standard on financial instruments - IFRS 9 - moves the balance sheet and profit or loss statement specifically of banks whose assets and liabilities consist of well over 90 per cent of their entire assets and liabilities. It also affects, directly and indirectly, their book equity, thus impacting CET1 under CRR and CRD IV. Reporting includes, but is not limited to, stress tests and stress test developments in both, practical implementation and theoretical development. Disclosure covers general disclosure requirements, as from accounting standards, especially IFRS 7 on financial instruments and risk reporting, but also specific needs according to Pillar 3 of the Basel framework. The technical working group, SGARD, undertakes to provide input to the EBA in the afore- mentioned areas. The mission of SGARD is to review the EBA consultation papers regarding those topics but also to bring the outcome of current linked research to the BSG and EBA.

SGARD consists of ten members from industry, from consumer organisations and from academia. The composition of the technical group ensures the inclusion of different perspectives, even in the drafting of BSG position papers.

The EBA has set up a task force on IFRS 9 benchmarking. It is working on a benchmarking exercise regarding IFRS 9 modelling practices. Therefore, the task force plans to send a quantitative template and qualitative questionnaire, which should be filled in by a sample of banks supervised by the ECB. For preparation purposes, the task force invited interested representatives to participate in a preliminary discussion round in May 2019, to collect first insights into the main implementation issues encountered in relation to IFRS 9 modelling practices, considering different sizes and business models of institutions. SGARD was represented by their coordinator, who expressed the general aspects of BSG members. Immediately after the meeting, not only were the technical group members informed about the content of the event, but also the members of the BSG in the following BSG meeting. The BSG positively supports the initiative of the task force, as it is of major importance to the EBA to learn more about the models used for accounting requirements. The work will continue in the year 2020, not only for the task force of the EBA, but also for the BSG. Specifically, SGARD will be permanently involved in the progress of this important project.

Furthermore, on the topic of IFRS 9, the coordinator of SGARD presented to all BSG members and those attending representatives of the EBA working on the IFRS 9 research project that he has undertaken, together with two co-authors, the availability of a working paper of the European Banking Institute (EBI). The BSG was informed about the new accounting rules on recognition and measurement, as well as on impairment. Emphasis, therefore, was placed on the expected credit loss model, as well as on the maturity of loan contracts, which basically remained unchanged. The setting of the empirical study is generally based on banks that are directly supervised by the ECB. It is an additional and more comprehensive study, compared to previous ones delivered by the EBA before mandatory application and fits perfectly with their own research activities.

Currently, the EBA Pillar 3 policy framework spreads over a range of different regulatory products. The framework includes several ITS and regulatory technical standards (RTS), as well as numerous guidelines. Uniform disclosure formats should, in the near future, lead to comprehensive and comparable information for users. ITS, therefore, want to maintain consistency of disclosure formats with international standards on disclosures. To promote market discipline the EBA develops a comprehensive set of implementing technical standards (ITS) on disclosure.

In December 2019, EBA initiated a public hearing on Pillar 3 and on the disclosure requirements on which the coordinator of SGARD was participating. Afterwards, a BSG comment letter was developed. It was sent into the EBA in January 2020. The BSG welcomes the general strategy of the EBA to align, as best as possible, the information to be reported to supervisors and the regulatory information that has to be disclosed to investors and other interested parties. BSG also supports the development of a comprehensive set of implementing technical standards (ITS) on disclosure. It is also essential to fulfill the principle of proportionality. Based on that common understanding, nevertheless, BSG developed some recommendations. SGARD will follow up on that topic. Opinion paper https://eba.europa.eu/sites/default/documents/files/document_library//20010601%20-%20BSG%20on%20Pillar%203%20Final%202.pdf

SGARD presented their view on the upcoming stress test 2020 with a presentation at a BSG meeting in October 2019, where representatives of the EBA participated. Here, SGARD proposed the EBA to further consider recommendations expressed by the European Court of Auditors (ECA).

Consequently, several members actively participated in the policy research workshop on the development of stress tests taking place in November 2019, as discussants of presented papers. SGARD will continue working on that specific topic on both levels, practically as well as from an academic point of view.

Between SGARD and the technical working group on Capital, Liquidity, Recovery, Resolution and Risk there is a wide range of interdependencies, specifically on the development of the Basel framework. Therefore, the coordinator of SGARD participated in a workshop on the finalisation of post-crises Basel III reforms, which was held in December in Brussels.

With the start of the year 2020, SGARD will consider giving a response into the consultation of the Draft RTS on the criteria defining managerial responsibility and control functions, material business unit and significant impact on their risk profile. In reference to that draft RTS, there are some changes planned in CRD V planned.

Last, but not least, three working papers in which the coordinator of SGARD was involved, were circulated to the members of BSG for their information. One European Banking Institute (EBI) working paper dealt with key audit matters – a new requirement for auditors to better inform shareholders about the main issues they were focussing on within their annual audit. The second EBI working paper covered the first time application of IFRS 9 and was presented in a BSG meeting. The third working paper focusses on corporate social responsibility reports of European banks and includes sustainable finance aspects. It is planned to inform the BSG about the findings in one of the 2020 meetings.

Working Group (WG) on Consumer Protection

The objective of the WG on consumer protection is to focus on enhancing consumer protection, advising the EBA on the preparation, implementation and enforcement of legislation or policy initiatives affecting the users of financial services, and to proactively identify key issues affecting users of financial services, within the remit of the EBA.

Since its set-up, the WG has contributed to the response to the EBA consultation paper on guidelines on loan origination and monitoring (September 2019) (also under WG on capital).

On their own initiative position papers, the WG decided in November 2019 to focus on the following two issues:

1. Focus on the Consumer Credit Directive (CCD) to potentially provide input on relevant aspects in a potential revision of the CCD: scope, creditworthiness, sales incentives and suitability, fees, transparency and arrears handling;
2. Follow EBA's Work Programme and the issue of Rise and unilateral changes to fees and charges.

However, since then, no progress has been made, as there has been expectation regarding the EU Commission's position on the revision of the CCD.

Working Group (WG) on Payments, Digital Fintech and Regtech

The Technical Working Group on Payments, Digital, Fintech and Regtech was established to support the BSG's activities with respect to topics related to monitoring, analysis and review of the EBA's activities and consultation papers dealing with innovation and financial technologies in payments and other financial services, and reaction to the EBA's opinions, in order to successfully implement PSD2, RTS on Strong Customer Authentication and Common and Secure Communication (SCA&CSC), and to draft response and/or opinions to be submitted to the entire BSG for final approval.

In the line with the PSD2 and RTS on SCA&CSC implementation, the WG focus was on: a regulatory perimeter for new financial activities - 'sandboxing' and 'innovation hub' schemes; "go live" of the Central EBA Register under PSD2; ICT and security risk management; contingency mechanism under Article 33(6) of Regulation (EU) 2018/389 (RTS on SCA & CSC); crypto currencies; open data and open banking.

The WG raised its concern about the membership of the EBA Working Group on APIs under PSD2, as neither representatives of cooperative banks nor representatives of e-money/payment institutions were appointed.

For the last year of the BSG term, the WG members actively expressed their opinions on the following topics:

- EBA's Central EBA Register under PSD2.
  The WG members underlined the importance of the frequency of information update on the EBA Register and whether there would be a period with a mismatch between the EBA register and the national registers under PSD2, and whether the EBA set a list of rejections of authorisations;
- EBA's 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;
- PSD2 and RTS on SCA&CSC implementation.
  The WG presented its viewpoint on the status of the PSD2 and RTS on SCA&CSC implementation process. The WG outlined the areas of change due to the SCA implementation and customers' readiness and awareness to change their habits regarding the new security requirements. By the adoption of RTS/SCA &CSC the EU aimed to establish solid ground for one of the key objectives under PSD2 – secure electronic payments and 'to reduce, to the maximum extent possible, the risk of fraud' (recital 95 – PSD2). To fulfill this task, each PSP is required to apply SCA as it is defined in Article 97(1):

  > Member States shall ensure that a payment service provider applies strong customer authentication where the payer:
  > (a) accesses its payment account online;
  > (b) initiates an electronic payment transaction;
  > (c) carries out any action through a remote channel which may imply a risk of payment fraud or other abuses;
- Crypto Currency.
  Crypto-assets do not entail a tangible impact on the real economy nor do they have significant implications for monetary policy. The very low number of merchants that allow the purchase of goods and services with bitcoins indicates no influence of the most prominent crypto-asset on price-setting. Crypto-asset market developments are dynamic and links to the financial sector and the economy may increase in the future.

The working group agreed to draft opinions on the following two issues:

- Crypto Currency - Public crypto-assets
  On this subject, the WG would like to propose the BSG focusses on public decentralised crypto-assets and some of the implications for public authorities, financial institutions and consumers. Whilst the future of public crypto-assets is far from certain, they could become a mainstay feature in

tomorrow's financial system. In such a case, adopting a clear strategy towards public crypto-assets is key to preventing some of the risks and enhancing benefits.

- Open Data and Open Banking
  One of the main areas of focus will be to improve the access and accuracy of credit information, as well as to expand and share this type of information.

In regard to the premature termination of the current BSG, the WG doesn't expect that we will be ready with the above mentioned opinions by the end of the mandate of this BSG, however, so we consider that we'll have to leave these opinions on hold and re-submit them under the new BSG, once it is appointed.

Working Group (WG) on Sustainable Finance

The Technical Working Group on Sustainable and Green Finance (SG TWG) was established in Spring 2019 to support the BSG's activities, with respect to the implementation of the EBA's action plan related to environmental, social, and governance (ESG) factors and ESG risks.

The main task of the SG TWG consisted of drafting BSG replies to EBA consultation papers for discussion and subsequent approval by the entire BSG. The TWG also screened outstanding EBA consultations to select those to which a BSG reply was deemed to be appropriate.

On January 2020, the SG TWG produced a policy paper to highlight some key policy messages on the topic of sustainable and green finance. In that respect, the SG TW considers that the priority should be to incentivise banks (and other financial actors) to accelerate the financing of energy transition, and to maximise carbon emission reduction, as well as other activities contributing to the achievement of sustainable development goals. It is crucial to raise awareness of financial institutions and their clients, regulators and supervisory authorities concerning the risk related to ESG factors and its impact on the overall risk profile of these institutions. Indeed, it is necessary (a) to intensify research on the identification of ESG risk and the methodology for its measurement, (b) to collect data on risk (in particular data on borrowers and their impact on ESG issues, including their impact on the environment, carbon emissions, etc.). In addition, the SG TWG reminds that a robust process and transparency on the taxonomy update, with involvement of all relevant stakeholders, is crucial for providing certainty to market players and how investment decisions are taken and communicated, to reassure consumers, investors, issuers and managers. Indeed, it is necessary to use a common language and definitions to measure and to allocate green capital flows, aimed at reaching the Paris Agreement towards a low carbon economy. Finally, the SG TW shares the view that the path to a low carbon economy shall not be a "Big Bang" but a "phase in" approach. Whilst recognising the urgency of the challenges we are facing, the transition to a low carbon economy should be a smooth process given the potential societal implications.

Until the end of the BSG IV mandate, the SG TW has closely monitored the EBA's initiatives related to its mandate. ESG factors and ESG risks are set out in the revised Capital Requirements Regulation (CRR 2) and Capital Requirements Directive (CRD 5) and it will bring its support to the BSG technical working groups and the BSG in general.

The opinion was published:

https://eba.europa.eu/sites/default/documents/files/document_library//Policy%20Paper%20on%20Sustainable%20finance.pdf

8. OTHER ACTIVITIES

BSG IV members have been active between 2019-20: these are the main representations and working groups meetings:

- European Commission's DG FIMSA Consultation Meetings on COVID-19 banking measures, participation of BSG Chair (Rym Ayadi) and BSG Vice Chair (Sergio Lugaresi) as speakers, on 28 May 2020 and on best practices applied by banks, non-bank lenders and insurers in relation to relief measures offered to consumers and businesses in the context of the COVID-19 crisis on 29 June 2020.
- Meetings of EBA, ACP on Proportionality, participation of BSG Chair (Rym Ayadi), 19 May 2020, 09 June 2020;
- EBA Seminar on big data in banking, Participation as speakers of BSG members (Rym Ayadi and Emilios Avougleas), 05 February 2020
- EBA Public Hearing on Pillar 3 and on disclosure requirements, participation by the coordinator of SGARD (Edgar Lowe), December 2019;
- BSG Working Group (WG) meeting on Basel III, hosted at the Centre for European Policy Studies (CEPS), participation of all members of WG, 06 December 2019.
- EBA Research Workshop on The future of stress tests in the banking sector – approaches, governance and methodologies; Participation of BSG Chair (Rym Ayadi), Coordinator of SGARD (Edgar Low) and BSG member (Monika Marcinkowska) as discussants and BSG member (Emilios Avougleas) as moderator, 27-28 November 2019;
- BSG Working Group Meeting on sustainable finance, participation of WG members, 27 September 2019.

9. CHALLENGES, LESSONS AND RECOMMENDATIONS

During the implementation of the BSG IV term, the group worked collaboratively to respond to EBA consultations within the five Working Groups. The sub-groups have acted proactively, providing policy papers that summarise group opinions and recommendations on critical topics such as sustainable finance, Basel III, stress tests, and response to the COVID-19 crisis.

The only challenge that faced the group is the premature end of the BSG IV term, which has not allowed the completion of the work programme mainly to progress the work under the two cross-cutting working groups on bank business models and AML/CFT. Equally, a meeting planned by the WG on sustainable finance was cancelled because of the short time between the last term two meetings.

One of the key lessons is to work in small groups on key topics and share them with the extended group for a quick consultation and approval. This work method has allowed a smooth process in adopting group opinions. One lesson is to appoint a coordinator and a vice coordinator of the working groups from two different interest groups, to make sure of a more balanced coordination and, hence, less industry-centric views, in particular when dealing with topics such as stress tests or Basel.

A second lesson is the effectiveness of the organisation of workshops on specific topics to better prepare and draft the opinions. Virtual meetings, powered by platform such as Webex or Zoom, proved useful to accelerate the work and to build compromise agreements.

Our recommendations are: 1) to organise a regular online interaction with the EBA's staff dedicated to each of the WGs. This is critical for the BSG to better target and align their advice and opinion to the work plan of the EBA; 2) to have more BSG involvement in the work plan of the EBA; 3) to have a coordination meeting between the WG coordinators once a month, organised by the Chair and Vice Chair, to better coordinate the work of the 5 WGs; 4) to set up a cross-cutting WG on the return to regulatory normality, post COVID-19, coordinated by the Chair and Vice Chair.