EBA BSG 2020 010

Banking Stakeholder Group

27 February 2020

Location: Paris

EBA-Regular Use

Banking Stakeholder Group meeting – Minutes

Agenda item 1: Welcome and adoption of the agenda and minutes

1. The EBA Chair and the BSG vice Chair welcomed the participants.

2. The BSG approved the agenda and the Minutes of the previous meeting.

Conclusion

3. The BSG approved the agenda of the meeting and the Minutes of the previous meeting on 3 December 2019.

Agenda item 2: BSG update on the latest developments

A) The BSG vice chairperson to report on BSG activities since the December meeting

4. The BSG vice Chair provided an update on the organisation of the BSG's work and informed of the BSG's activities since the last meeting.

B) Progress update from Technical Working Groups

5. There were no updates provided on the two horizontal groups on Banks Business Models and on AML/CTF.

6. The Chair of the Working Group 1 (capital, liquidity, recovery, resolution, and risk) informed the members that the the BSG Opinion on Basel III finalisation was published on the EBA website on 18/02/2020.

7. The EBA Chair informed that EBA is working on a response to additional questions from the European Commission to their Call for Advice on Basel, received in July 2019. These additional questions posed by the European Commission concerned the impact of applying the output

floor at solo versus consolidated level, the impact of the output floor on TLAC and MREL, the impact on specialized lending and finally, on equities.

i. To measure (i) the impact of applying the output floor at solo versus consolidated level, the EBA conducted an output floor analysis which showed that the total average impact of the Basel III reform on the same sample of banking groups on a consolidated level higher than the average results at individual and sub-consolidated level.

ii. At the individual entity level, the impact of the reform is heterogeneous across business models.

Agenda item 3: EBA update on general developments

A) Update on process of set up new Banking Stakeholder Group

8. The EBA Chair informed the BSG members that the BoS approved the process and timeline on the setup of the new banking stakeholder group (BSG V).

9. The EBA Chair repeated the main changes of the new banking stakeholder group compared to the current one, being:

   I. The term limit will be two four years terms instead of two two year terms;

   II. The current BSG members, even those that are in their second term, are welcome to apply for an additional term;

   III. BSG V shall count 30 members of which:

   a) 13 members representing, in balanced proportions, financial institutions operating in the European Union of whom three shall represent cooperative and savings banks;
   b) 13 members representing employees' representatives of financial institutions operating in the Union, consumers, users of banking services and representatives of SMEs and;
   c) 4 members who are independent top-ranking academics.

B) Update on IFRS 9 benckmarking

10. The EBA Chair and EBA policy experts informed BSG members on the work done by EBA with regard IFRS 9. In particular:

    i. A public consultation was finalised on 13 February 2020. Six responses on IFRS 9 related issues were received. A presentation on the main aspects of the feedback received from industry was provided to BSG members.

ii. A field work with national experts was organised during the week from 17 to 24 February in order to give continuity to the analysis work on the banks' submissions (quantitative and qualitative templates);

iii. A roundtable with the industry was held on 24 February 2020. The invitees for this roundtable were the same ones than those invited for the roundtable in May last year in order to allow a continuous dialogue with the banks actually participating in the exercise.

11. The feedback received during the roundtable is very much aligned with the one received during the public consultation and some other issues on the templates identified when analysing the submissions performed by the institutions.

12. It was also mentioned by the EBA policy experts that, ii) as indicated in the IFRS 9 Roadmap published by the EBA in July 2019[1], the exercise on IFRS 9 benchmarking will proceed with the integration of additional parameters (e.g. LGD and EAD) into the ITS on benchmarking for low default portfolios for IRB banks.

13. EBA policy experts provided BSG members with a more detailed update on (i) the main analysis currently being conducted by the internal Task Force on IFRS 9 Benchmarking, (ii) the main aspects mentioned by the industry during the public consultation and (iii) on the respective planned next steps.

14. Regarding the next steps, as indicated in the presentation to the BSG, the following main tasks are planned for the finalization of the ITS and, more in general, to give continuity to the benchmarking exercise:

a. Finalisation of the ITS 2021 (reference date December 2020): H1 2020;

b. Next ITS 2022 (reference date December 2021):

   i. Preliminary reflexions: H1 2020;

   ii. Ad-hoc exercise similar to the one last year in order to prepare the integration of additional parameters: H2 2020;

   iii. Introduction of new risk parameters in the ITS: H1 2021.

15. One BSG member pointed out that banks would be interested to know more on the EBA future plans regarding the use of the benchmarking data. This BSG member also wondered whether the aim of this exercise is to achieve an alignment in terms of the models used for accounting purposes. The EBA policy experts have explained that the assessment of the data has just been initiated and that a staggered approach is being followed involving all

[1] https://eba.europa.eu/eba-publishes-its-roadmap-on-ifrs-9-deliverables-and-launches-ifrs-9-benchmarking-exercise

the relevant stakeholders, as deemed necessary. It was also mentioned that there is no intention to guide banks in changing their accounting practices. However, the accounting numbers produced have a direct impact on the level of own funds and, in this sense, potential sources of variability need to be well understood by supervisors and regulators.

16. Another BSG member questioned on the possible publication of results. The EBA policy experts clarified that the current intention is not to publish as it is considered too soon to drawn final conclusions.

17. Additionally, there was a question on the second qualitative questionnaire currently being prepared. The EBA policy experts briefly explained the purpose and the main focus of this questionnaire.

C) Update on sustainable finance

18. The EBA Chair updated on the ESG Agenda, being (i) the EBA mandate until 2025 for the potential adaptation of the prudential treatment and (ii) the rest of deliverables under the EBA's Action Plan on sustainability.

19. With regard to the EBA mandate until 2025 for the potential adaptation of the prudential treatment, EBA emphasised that it is getting a better understanding on how to identify these risks and is now at the stage of developing an exercise to measure them. Meanwhile, the Commission has put climate change related (and sustainability related) issues at forefront. A proposal to incentivise sustainable investments by means of revising the prudential framework (Pillar 1) is being repeatedly flagged. In terms of disclosure, and innovations, pro-active practices need to happen in the market place, with the industry being in the lead to develop, research, innovate in sustainability related issues. Then the EBA, as a regulator, can better react and fulfill its mandates. Currently, EBA, which has been engaged in the EU taxonomy work, is at the phase of developing guidance for banks in terms of the business strategies, processes and the risk management framework that can be applied to take due account of the ESG risks and opportunities. E.g. what is the ESG risk that the clients of the banks are confronted with?, how can banks position themselves to adequately manage their investments from a sustainability perspective?etc.

20. The EBA Chair provided a short update on the Action Plan on sustainable finance that EBA published in December 2019 which:

    i. outlines the EBA's plans on deliverables and activities related to environmental, social, and governance (ESG) risks, and in particular explains the phased approach and associated timelines for delivering the EBA mandates;

    ii. highlights some key policy messages on the topic of sustainable finance and;

    iii. sets a high-level policy direction and expectations about ESG risks.

These expectations emphasise three areas where institutions are encouraged to consider taking steps, being (i) strategy and risk management, (ii) disclosure and (iii) scenario analysis and stress testing, before the EU legal framework is formally updated and the EBA regulatory mandates delivered.

21. Then the EBA Chair informed BSG members that EBA completed by the end of December 2019 the response to a COM's call for advice inviting EBA to explore possible undue short-termism from the financial sector. Overall, the EBA analysis has identified limited concrete evidence of short-termism but cannot necessarily label it as 'undue'. EBA flagged some areas where time horizons of institutions appear too limited and recalled the role of banks' short-termism in the financial crisis.

22. EBA's report provides policy recommendations advocating that policy action should aim at providing relevant information and incentives to the banks to extend the time horizon in their strategies and governance. The EBA especially recommends that the European Commission (i) maintains a robust regulatory prudential framework; (ii) fosters the adoption of longer term perspectives by institutions through more explicit legal provisions on sustainability; (iii) continues to enhance disclosures of long-term risks and opportunities by both corporations and banks and; (iv) improves information flows and data access on ESG risks.

23. The EBA Chairperson concluded with the EBA planning on Sustainable Finance of 2020, being to consult on (i) incorporation of ESG into strategy, risk management and supervision; (ii) disclosure requirements for investors and consumers together with other ESAs; and (iii) on Pillar 3 disclosure on ESG risks. In addition to these consultations, EBA is preparing a climate risk sensitivity analysis with a sample of banks (on voluntary basis), and EBA will continue its engagement with banks on improving their ESG voluntary disclosures. EBA will be engaging with BSG on individual consultations.

24. One BSG member asked for an update on the selection of the new EBA Executive Director. The EBA Chair responded that following the rejection of the candidate selected by the EBA Board of Supervisors, a new candidate was selected and will be presented to the approval of the European Parliament.

25. One BSG member questioned the evolution of the EBA's resources. The EBA Chairperson responded that resources are detemined by the European Commission, the Council and the European Parliament. He added that currently the plan for the next 3 to 4 years is stable and that there might be a slight increase of resources for new AML mandates to EBA.

26. One BSG member questioned about EBA's actions and internal governance concerning the Covid-19 crisis. The EBA Chair responded that EBA would follow the guidance of the French authorities and the European guidelines.

Agenda item 4: EBA update on risks and vulnerabilities

27. The Head of Unit of Risk Analysis and Stress Testing gave a presentation on risks and vulnerabilities in the EU banking sector. Key topics presented included:

i. Capital ratios remained broadly stable, as capital increases matched RWAs increasing trend.

ii. Banks have increased dividend pay-outs (3.7% of CET1) and continue to perform share buy-back programmes (Net share buy-back of 0.2% of CET1). However, there is no clear link between the management buffer and dividend pay-outs/share buy-backs.

iii. Assets quality: NPL ratios continue to decline although at a slower pace compared to previous years.

iv. Profitability: ROE has decreased slightly compared to 2018 (6.6% in September 2019).

v. Interest margins continue to decline while lending volumes increase.

vi. Consumer lending is growing substantially in most EU countries. Due to both increase in demand and supply, this lending segment recorded a significant growth across many countries in the past years. Demand was mainly driven by economic growth and decreasing unemployment, whereas supply was driven by low interest rates and search for higher margins by banks.

vii. Aggressive lending, coupled with extremely high interest rates may raise consumer protection concerns and lead to increased conduct risk for the banks by inducing misconduct practices. Increasing competition (also by other financial institutions and Fintech companies) may also ignite a race to the bottom by encouraging loosening of credit standards.

viii. The EBA is also looking at improving bank's lending standards and loan origination practices, including borrowers' creditworthiness assessment in its new Guidelines on loan origination and monitoring, which among other topics, set specific requirements for the creditworthiness assessment in relation to consumer loans.

28. Following EBA's experts presentation, BSG members expressed their views on the main risks to the EU's banking sector, on risks and pricing as regards consumer lending.

29. One BSG member stated that compliance costs of EU banks are a significant drag on profitability.

30. Another BSG member pointed out that the increase in riskiest exposures combined with low interest rates benefit mainly households and SMEs. Another BSG member noted that some new digital banks have started offering consumer and SME loans. EBA's experts confirmed that there is a positive demand side on consumer lending and that there search for yield by banks. They explained that a main current concern is a misprice of risk.

31. Another BSG member asked about the maturity of consumer loans. EBA experts responded that the EBA held a survey on supervisors and that this survey revealed a duration between 3 and 7,5 years for consumer loans.

32. Other BSG member pointed out that there are legal restrictions to the application of negative rates to deposits and questioned what the definition of grey area in the presentation was, which was explained to be areas for which no concrete law is in place, but for instance, when provisions in the Civil Code deter banks from applying them.

33. Further topics discussed were EU's banks NPL evolution and the dividend levels of different kinds of banks depending on their size or business model.

Agenda item 5: EBA update on the future of the EU-wide stress test framework (A-point)

34. The EBA Chair emphasized that for drawing the framework of the future EU-wide stress test, the EBA worked closely together with competent authorities and the ECB to finalise the Discussion Paper and publish it for consultation, hereby taking into account the lessons learnt from previous stress test exercises and the formal and informal feedback from various stakeholders. These bundled forces resulted in the publication of the discussion paper on the future changes to the EU-wide stress test. However, the framework as presented in the discussion paper is not set in stone. The large number of questions EBA has put forward witnesses that the discussion is open.

35. The EBA Chair gave a quick update on the timeline of the current 2020 EU-wide stress test and explained that in contrast to previous stress tests, this year's adverse macro financial scenario focuses on negative growth and low interest rates, the so called lower-for-longer narrative.

36. The EBA director of the economic analysis and statistics department presented a discussion paper on the future changes to the EU-wide stress testing. He clarified the approach of two legs – bank and supervisory, both using a common scenario, but different levels of constraint methodology – where the supervisory leg is relevant for the determination of P2G, while the main focus of the bank leg is transparency for fostering market discipline. In such an approach the supervisory leg would on the one hand provide limited disclosure, on the other hand the bank leg would provide granular disclosure similar to the one we have at present. He continued by focusing on what are the possible features and alternatives of each leg. The supervisory leg remains a constrained bottom-up approach, but with less intensive quality assurance. Possible features are: introduction of top down elements, possible relaxation of some constraints compared to the current framework and a discretion to consider bank leg results in the final supervisory decision. The bank leg baseline proposal is the same common methodology as in the supervisory leg for obtaining the bank leg, however, banks would be allowed to decide on whether to apply the constraints prescribed in this methodology or not. Presented alternatives were: 1) a

common less constrained methodology for all and; 2) a possible option is to allow banks to use their ICAAP models for producing the bank leg results. On the disclosure, the director highlighted that there would be an integration of the results in the supervisory process, with one of the three options being a publication of P2G, and that banks would provide reconciliation of the two outcomes (supervisory and bank leg) by providing impacts of constraints and management actions to the extent possible. He also presented potential changes to the scenario design, where multiple scenarios and sensitivity analyses are considered for the regular exercise, while exploratory scenarios, such as climate or cyber risk, would be feasible in an independent exercise.

37. After the presentation, BSG members provided some comments on the Discussion Paper.

38. One BSG member supported the changed narrative for the current adverse macro financial scenario and asked the EBA team whether incorporating second round effect of banks would respond to outcomes of the stress testing. Also increasing transparency on the supervisory decision process could be an idea.

39. Another BSG member expressed some concerns on the bank and supervisory leg as a dialogue was necessary and therefore the split between the two legs did not seem appropriate.The same BSG member pointed out that the supervisory leg is driving the P2G decision and that there should be more transparency on the supervisory leg. This member also referred to the differences between the US and the EU.

40. Another BSG member wondered whether applying dual disclosure would create more confusion amongst participants and whether the market just would ignore the bank leg disclosure. This member also questioned of the disclosure of P2G as it will be considered a binding requirement.

41. Another BSG member stated that currently, there are three divisions, being (i) supervisory leg; (ii) bank leg and ; (iii) ICAAP. He questioned why we do not go directly to the ICAAP for the banking leg as this will provide incentives to banks to improve their ICAAP models.

42. Another BSG member pointed out that the objective of the stress testing framework is to improve the process and the dialogue between banks and supervisors. But given the way it is proposed now, it will end up in a way that is more complex, e.g. on ICAAP, the EBA could provide guidelines. Furthermore, this BSG member also wondered how the market will assess the different results coming from the supervisory and the bank leg

43. The EBA Chair thanked for the useful inputs and reminded that there is no need to change the stress testing framework and methodology as it stands now but that it only should be changed if there is an improvement. He also encouraged the BSG members to participate to the public consultation.

Agenda item 6: EBA’s update on regulatory deliverables

Agenda item 6A: EBA roadmap on investment firms

44. The EBA Chair announced that the Investment Firms Directive (IFD) and Regulation (IFR) entered into force on 26 December 2019 and updated on the further steps to be taken with regards the topics:

    i. The IFs Roadmap document summarises strategy and expected workplan concerning all the EBA mandates under IFR/IFD in the coming years, with the expectation to publish the first consultation papers (on capital requirements, reporting and remuneration) already in May 2020.

    ii. As explained in the IFs Roadmap, the first bulk of regulatory products should be submitted to the EU Commission by December 2020, whereas the other regulatory products will be submitted in phases during the next years.

    iii. Due to the overarching character of the required work, which needs cooperation within the EBA as well as coordination with ESMA, the whole workplan is very aggressive and remains subject to potential delays.

45. EBA staff presented the roadmap document.

46. He explained that:

    I. The two legislations (IFD and IFR) follow (broadly) the 2017 EBA Call for Advice on the prudential requirements for MiFID investment firms;

    II. They introduce a separate and different regime (with respect to the CRR) and several new mandates have been assigned to the EBA. Often, the RTS need to be developed from scratch, as they are based on a different framework and this leads to a very high workload;

    III. Furthermore, the IFR/IFD will be applicable in June 2021 when the IFs will cease to be subject to the CRR. At the same time the CRR2 will start being applicable;

    IV. In terms of presentation, the Roadmap document may be subject to cosmetic changes in the coming weeks.

47. Following the presentation, one BSG member questioned the interplay between the text and the Brexit, given that in the EU28, most of the investment firms are based in the UK. The EBA Chairman clarified that the regulations may diverge over time, as this is expected after Brexit. EBA staff explained that half of the European investment firms are currently domiciled in the EU27, primarily in Germany and the Netherlands and therefore the scope of application remains very broad and of primary interest for the EU financial sector.

48. The vice Chair of the BSG also asked in which way the BSG could contribute to the coming work in this area.

The EBA expert responded that in parallel with the public consultation on the RTS on prudential requirements for IFs, there will be a request for investment firms to submit quantitative data in order to assess the impact of those regulations. This data collection exercise is carried out on a best efforts basis. However, past experience teaches us that smaller investment firms are less reactive to this type of initiatives. Should data be reported mostly by larger investment firms, it might happen that the calibration of the requirements results in a punitive treatment for smaller market participants. To avoid this unfavorable outcome, the BSG members that are closer to industry associations should be proactive in encouraging also smaller investment firms to participate to these exercises.

49. Meanwhile, investment firms should be encouraged to be active and submit their responses through public consultations. Investment firms will have three months to provide comments, which should be a reasonable time given that not all the RTS are applicable to all investment firms.

Agenda item 6B: update on EBA Guidelines on loan origination and monitoring

50. The EBA Chair informed BSG members that EBA finalised the Guidelines on loan origination and monitoring after the public consultation, that the guidelines have been approved by the BoS at its February meeting and that the EBA is preparing for their publication. The EBA Chair also thanked the BSG members for their active contribution to the development of the guidelines through the discussion at earlier meetings and by providing a comprehensive Opinion.

51. The EBA policy experts updated the BSG members on recent developments and changes introduced into the final guidelines after the public consultation noting specific points raised by the BSG in their Opinion (slides have been previously circulated to the BSG). The EBA policy experts confirmed that the BSG Opinion reflects the overall tone and the general direction of all other comments received to the consultation.

52. The EBA policy experts explained that the final guidelines as approved by the BoS have been significantly revised to address the comments raised in the consultation, in noting the following:

    a. the final text better reflects the principle of proportionality, that has been clarified throughout the guidelines with notable separation of the requirements for the creditworthiness assessment of micro- and small enterprises from the requirements for the assessment of medium-sized and large corporates;

    b. the scope of application of the guidelines have been clarified with respect to the application to the loans and advances what has been changed after the application date;

c. the application date on its turn has been postponed to give more time for the industry to implement changes into their processes and transitional arrangements and to address possible data gaps in monitoring;

d. the final guidelines better recognise the use of automated models in creditworthiness assessment and decision-making and provide more clarity on the use of advanced statistical models for collateral valuation (all subject to the specific governance requirements);

e. The final text has been further aligned with and crosschecked against all relevant legislation and supervisory requirements, in particular, in the field of consumer protection and internal governances.

53. Following the presentation, some BSG members commented on the applied process, more specifically, they questioned why BSG is offered this discussion and cannot comment on the new version of the guidelines. They suggested that a second consultation of the BSG might have been useful and that a new impact assessment should have been considered. Other members reiterated their comments provided in the public consultation and the BSG Opinion noting that without seeing and assessing the final text of the guidelines they cannot assess whether the comments have been duly addressed and incorporated.

54. In reaction, the EBA Chair informed that the EBA has been engaging widely with all major stakeholders during the consultation period and tried to address as many comments as possible. The BoS also considered the need for a second consultation and decided not to go for it as the changes introduced addressed the comments received. As for the BSG further involvment, at this stage, the BSG is only informed as it requested to be informed, and there will be no further written procedures as the guidelines have already been approved by the BoS. The EBA staff, however, stands ready for further interaction with the industry and explaining the changes once the guidelines are published.

55. The EBA Chair confirmed that the Guidelines enter into force one year after the publication in English.

Agenda item 7: EBA's update on consumer – and depositor protection: update on the three EBA Opinions on the implementation of the Deposit Guarantee Schemes Directive

56. The EBA policy expert and Co-Chair of the TFDGS provided the BSG members an update on the EBA's work on the three EBA Opinions on the implementation of the DGSD, including the third and final Opinion on DGS Funding and Uses of DGS Funds published on 11 February 2020. He also informed the BSG that further work is needed in relation to 22 areas identified across the three Opinions, and that the Commission has set up a working group to discuss the proposals with Member States.

57. BSG members had questions in relation to the proposals on using failed institutions assets for payouts, using DGS funds for failure prevention, application of temporary high balances provisions in case of death of the account holder, and coverage of local authorities' deposits. The EBA policy expert outlined the proposal and the argumentation to arrive at the proposals in relation to these areas, as per the three EBA Opinions.

Agenda item 8: Topics presented by BSG members

58. BSG members shared their thoughts on the way forward with the group, being:

  i. The BSG should not be a one way consultation and/or dialogue. Some members have the impression that the BSG is more a note taker instead of a committee. E.g. the fact that the BSG opinion is never mentioned in the BoS minutes could feed that impression;

  ii. Some BSG members would like to organize more meetings together with the BoS;

  iii. BSG members point out that the highly relevant and high level discussions of subgroups of the BSG are not being picked up by EBA and therefore the idea of reforming the subgroups of the BSG into informal standing committees could offer a solution;

  iv. Proposal to ask the newly set up BSG to come up with new proposals, new subgroups etc. in dialogue with EBA to improve and increase the BSG meetings output.

59. The EBA Chair expressed its interest in the new ideas of the BSG members. With regards the interaction with the BoS, he emphasized that the feedback from the BSG is very useful and taken seriously. He stressed also that the feedback of BSG members provided through public consultation is taken very seriously.

Agenda item 9: AOB

Next meeting

The next BSG meeting will take place on 21 April 2020.

Participants

BSG :

BSG ad interim chair

Sergio	**Lugaresi**	**Italian banking association**	**Italy**
Soren	Holm	NyKredit	Denmark
Hervé	Guider	European Association of cooperative banks	Belgium
Luigo	Giuso	Household Finance	Italy
Lara	De Mesa Garate	Banco Santander	Spain
Jean	Naslin	Caixa Bank	Spain
Thaer	Sabri	Electronic Money Association	UK

Anne	Fily	Independent consultant	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
Victor	Cremades Erades	Association of Consumers and User of banks, saving banks, financial products and insurance (ADICAE)	Spain
Lyubomir	Karimansky	International Banking Institute	Bulgaria
Giedrius	Steponkus	Lithuanian Investors association	Lithuania
Edgar	Loew	Frankfurt School of Finance	Germany
Monika	Marcinkowska	University of Lodz	Poland
Monica	Calu	Asociata Pro Consumatori	Romania
Angel	Berges	AFI-UAM	Spain
Sebastien	de Brouwer	European Banking Federation	Belgium
Veronique	Ormezzano	BNP Paribas	France

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