



EBA BSG 2018 052

Banking Stakeholder Group

17 APRIL 2018/10:00-17:15

Location: London

EBA-Unrestricted

Banking Stakeholder Group – DRAFT Minutes

Item 1.: Welcome and adoption of the agenda

1. The BSG Chairperson together with the EBA’s Chairperson welcomed BSG Members.
2. The agenda was approved. The BSG Minutes from the last meeting held on 21st February 2018 were approved.
3. The BSG Chairperson informed that from now on the BSG secretariat would be supported by Ester Botica.

Item 2: BSG update on the latest developments

A) BSG Chairperson to update on recent developments and to allocate the work on the EBA’s Consultation Papers

4. The BSG Chairperson recalled the BSG responses to the EBA’s consultation papers (CP) issued since the last BSG meeting and allocated the preparation of responses to EBA’s papers under consultation based on indications of Working Group members to lead the preparations.
 5. He reminded BSG members that the deadline to draft an “End of Term” report was October 2018 and proposed to create a drafting team involving the Working Group (WG) coordinators.
 6. Finally he presented the joint European Supervisory Authorities (ESAs)’ Stakeholder Groups response to the European Commission’s Proposal on the Review of the ESAs. The WG involved in the preparation proposed to include some small drafting suggestions to clarify its role. The BSG Members agreed with the letter and suggested changes, which would be communicated to the other ESA’s Stakeholders Groups.
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B) Update of BSG Technical Working Groups' Activities

7. The leader of the BSG Technical WG in Capital Liquidity and Risk presented their work.

Item 3: EBA update on general developments

8. The EBA Chairman provided an update to the BSG regarding ongoing regulatory developments.
9. The EBA Chairman informed about the new internal organisation of the EBA which better reflects the EBA's role and objectives on supervision and resolution, post-Banking Union and Brexit. He also noted the creation of a new department dedicated to economic analysis and statistics.
10. Regarding the EBA's work on NPLs, the EBA published the standardised NPL templates in December 2017, a CP on Guidelines on management of non-performing and forborne exposures with a deadline for responses in June 2018 and a recent advice on the Commission's proposal for statutory prudential backstops on banks' provisioning practices for new loans that turn non-performing.
11. In relation to the future products on NPLs, the EBA is also working together with ESMA and Competent Authorities in enhanced disclosure requirements for non-performing and forborne exposures and guidelines on loan origination, monitoring and internal governance.
12. The launch of the EBA's proposed Q&A implementation review has been delayed to allow for some additional discussions on the organisational aspects, but the EBA hopes to be in a position to contact the BSG members shortly to update them on this process.
13. The EBA has recently published a benchmark report of remuneration and high earners. This report contains both an analysis of the 2016 data reported for high earners and an analysis of the 2015 and 2016 remuneration benchmarking data, containing information on all identified staff.
14. On the EU implementation of the Basel reforms, the EBA will soon receive a Call for Advice (CfA) from the Commission which includes topics such as the treatment of mortgage portfolios, new risk weights on equity exposures, the new credit valuation adjustment and operational risk framework. The EBA will request the BSG's support on these topics.
15. BSG members requested clarification regarding remaining national discretions in the final agreement on Basel III and the supporting data collection from the EBA as requested by the EU COM's Call for Advice on Basel III implementation. They also wondered whether the EBA is involved in latest EU developments on sustainable finance and asked for an update on the EBA relocation to Paris.
16. The EBA Chairman clarified that the final agreement on Basel III includes discretions on operational risk requirements. However, in the EBA's view, the default option should be chosen

at the EU level and applied to all EU banks. He also explained that the EBA should start its data collection in June 2018 to have an impact assessment report ready by June 2019. Regarding the work on sustainable finance and in particular the latest High Level Group report on that matter, he explained that the EBA had not received any mandate yet.

17. The EBA Executive Director informed of the state-of-play of the EBA's relocation to Paris. He explained that a legislative change in the EBA founding regulation was necessary to modify EBA's seat. Regarding the EBA staff, he noted that the EBA Staff committee conducted a survey on the possible location and Paris was among the top three destinations; however, there has been some resignations linked to the move. The EBA is building a reserve list with potential candidates in order to offset the risk of losing staff when moving to Paris. In the meantime, French authorities are supporting EBA employees in different areas.

Item 4: EBA update on key risks in the EU banking sector

1. EBA Staff provided a presentation on risks and vulnerabilities in the EU banking sector. The following issues were inter alia highlighted: CET1 ratio increased in 2017 YoY by 60 bps to a weighted average of 14.8%. An increase by 20 bps in Q4 2017, mainly driven by decreasing risk-weighted assets (RWAs), as RWAs decreased by 3.5% in Q4 2017 YoY. Drivers of decreasing RWAs include, e.g., debt securities holdings, while loan volumes remained relatively stable (-0.6%, YoY). The EBA is currently investigating further drivers of decreasing RWAs. The average NPL ratio continues on an improving trend, decreasing by 20 bps to 4% in Q4 2017 (110 bps y-o-y). Bank profitability increased to 6.1% in 2017, up from 3.3% in 2016, and at the highest level in the past 8 years. However, RoE is still significantly below estimated CoE of around 10%, Bank funding conditions continue to be benign. Expectations are there will be more emphasis on MREL eligible funding, AT1s and securitisation in bank funding activities in 2018.
2. BSG Members asked for clarification on the decline of some components of NPLs and on the policies needed to reduce their level further. EBA staff explained that regulatory initiatives and regulatory suasion have so far contributed to reduction of NPLs, especially in SME and household portfolios, which are easier to sell.
3. The EBA Chairperson also noted that the EBA had done some analysis of strongest reductions of NPL portfolios, and the result was that asset sales in Italy and transactions in the UK were among main drivers. In these countries, assets had been moved away from balance sheets and therefore the reduction was linked to quantitative factors rather than in changes to average risk weights.

Item 6: Discussion on topics presented by BSG members

4. A BSG Member gave a presentation on market valuation and profitability of banks in Europe versus US. He noted that three years after Banking Union, EU banks performance still lagged behind US banks in terms of profitability (RoE), NPLs and costs (cost-income ratio). In a long-term trend, EU bank valuation (in price-to-book ratio) lagged behind US bank valuation in spite

of a recent recovery. He argued that markets were more confident as regards US banks' RoE and that implicit cost of equity was higher for EU banks than for US banks.

5. Some BSG Members questioned the analysis and referred to the American economic policies to understand the results. Others noted that RWA densities are higher in the US since the use of internal models is more restrictive, but despite that US banks have higher profitability.
6. A BSG Member underlined the need to take into account local business models and to avoid using a single metric (e.g. RoE) to compare institutions. For instance, savings banks and cooperative banks in Germany present high levels of capital due to their policy of retained earnings and are not driven by the need to reach high levels of profitability. Other members suggested that there are specific factors in the German case that explain these results, including *inter alia* the role of Landesbanken in absorbing losses and the related public support.

Item 5: EBA update on other regulatory deliverables (A-Point)

A) EBA's staff to update on Brexit

7. EBA staff presented the Brexit's work plan for 2018 with an indicative timeline for deliverables and informed about the Opinion planned to be issued in June, which would be addressed to competent authorities to ensure that institutions in their jurisdiction are prepared for a possible hard Brexit and its effects on consumers.
8. A BSG Member asked the EBA to focus on the industry rather than the political aspects, as the industry would need some certainty about the transition period to avoid overhead, specially accessing to market. In this matter, he suggested temporary licenses to branches as a possible solution. EBA staff noted that a transition period had not been agreed yet and therefore a no-agreement remained a possibility.

B) EBA's staff to present an update on Conduct, Payments and Consumers matters

9. The EBA staff presented EBA's work on the consumer trends report 2018/19 and its indicative timeline which includes requests of external stakeholders' views through a questionnaire and a workshop for consumer associations.
10. The BSG Members welcomed the initiatives and asked to include representation of all EU countries. Additionally, they raised the issue of accommodation cost in London for consumer associations and more information about the Joint ESAs Consumer Protection Day. EBA staff guaranteed the invitation of EU associations to cover all EU countries and informed about the possibility of covering some expenses, which would depend on the participation and the budget. EBA staff clarified that EOIPA was responsible of this year's Joint ESAs Consumer Protection Day organization and logistics.
11. The EBA staff presented the CP on extension of the Joint Guidelines (GL) on complaints-handling to PISPs and AISPs under PSD2 that provides only payment initiation services or account

information services respectively. The existing Joint GL on complaints-handling were issued by ESMA and EBA in June 2014 and set-out requirements in relation to firms' complaints management policy and function, registration, assessment, reporting and responding to complaint.

12. The BSG Members noted that the consultation covered only the scope and any change to the guidelines would have to be agreed with ESMA and therefore the EBA was not in a position to accept BSG ideas to the guidelines themselves.

13. EBA staff clarified that the consultation referred to the application of the proportionality principle and would like to identify controversial application issues especially for small entities.

C) EBA's staff to present the "Exchange of views on the implementation of article 25(4) and 27 of Commission Delegated Regulation (EU) 2015/61 on the liquidity coverage requirement".

14. The EBA staff informed about the LCR Regulation assessment regarding its implementation, focusing particularly on the way that competent authorities and banks were applying national discretions, and also on those provisions where there were significant leeway for interpretation. They raised a couple of issues where the LCR Regulation lacks the necessary accuracy and leaves significant room for manoeuvre, which could even challenge the level playing field across institutions.

15. EBA's intention is to provide some principles-based guidance which, while keeping the flexibility envisaged in the Regulation, can ensure a minimum level of harmonisation. This is particularly the case for the identification of excess amount of operational deposits, which would not be able to benefit from the preferential rates of operational deposits, and exempted retail deposits from outflows. The impact of this leeway is high in the LCR outcome and with quite divergent methods employed in practice.

16. The BSG Members expressed different views on the matter emphasising that liquidity was key for not having insolvency problems. Some noted that banks were behaving differently regarding the use of the methods suggested such as references for banks to approach the calculation of excess operational deposits in the LCR, and welcomed harmonisation regarding emergency liquidity assistance. Others suggested to look at stress scenarios in relation to the safety stock and the deposit balance.

17. EBA staff noted that the assessment included was under normal time and that would have to be checked under stressed time. They would have to find a way in which the provision was applicable but also be prudent in the way it was applied. Even the depositors covered by the Deposit Guaranteed Scheme would have to be assessed.

D) EBA staff to present the prudential backstop report

18. EBA staff presented the report on prudential backstop for NPLS, which aimed to provide some qualitative considerations about the design of the statutory prudential backstop, to analyse his

interactions with the existing prudential set of measures and the new accounting provisions under IFRS9 as well as a conservative impact analysis of the different specifications of the backstop.

19. The BSG Members asked whether NPLs could be recovered earlier and if a dynamic and behavioural analysis could be performed. EBA staff clarified that the analysis considered recovery as early recovery scenario but that there was no plan to assess the impact. The point regarding the differences between the CET1 sample compared to the one used in the EBA risk dashboard was also addressed.

Item 7: AOB

20. The EBA staff requested permission to the BSG members to include them in the EBA news alert. The BSG members agreed.

Participants

BSG:

Chairperson – Santiago Fernández de Lis, BBVA

Gerda	Holzinger-Burgstaller	Erste Group Bank AG	Austria
Anne	Fily	Finance Watch	Belgium
Guillaume	Prache	BETTER FINANCE	Belgium
Martin	Schmalzried	COFACE	Belgium
Fryni	Michael	Cyprus Consumers Association	Cyprus
Søren	Holm	Nykredit	Denmark
Michel	Bilger	Crédit Agricole	France
Christophe	Nijdam	Independent	France
Mark	Roach	Ver.di	Germany
Ernst	Eichenseher	UniCredit Group	Germany
Sabine	Masuch	Association of Private Bausparkassen	Germany
Nikos	Daskalakis	GSEVEE	Greece
Dermott	Jewell	Consumers Association of Ireland	Ireland
Sergio	Lugaresi	Italian banking association	Italy
Giovanni	Petrella	Catholic University (Milan)	Italy
Giedrius	Steponkus	Lithuanian Investors association	Lithuania
Monika	Marcinkowska	University of Lodz	Poland
Alin	Iacob	Association of Romanian Financial Services Users	Romania
Angel	Berges	AFI-UAM	Spain
Thaer	Sabri	EMA	UK
Mike	Dailly	Govan Law Centre	UK
Simon	Hills	UK Finance	UK
Dominic	Lindley	Independent	UK

EBA staff:

Andrea Enria, EBA Chairperson

Adam Farkas, EBA Executive Director

Ester Botica Alonso

Philippe Allard

Christopher Mills

Pier Haben

Angel Monzon

Mario Quagliariello

Christopher Kuhn

Dirk Haubrich

Antonio Barzachki

Roberta De Filippis

Luis del Olmo

Gerbert van der Kamp