

Joint Board of Supervisors / Banking Stakeholder Group Meeting - Minutes

Date 15 May 2013 / Time 09:00 to 12:30

Location: EBA

Agenda item 1: Welcome and Approval of the Agenda

1. The EBA Chairperson welcomed BoS and BSG members and communicated the unavailability of the BSG Chairperson (David Llewellyn). David Llewellyn sent his apologies for his unavailability due to long-standing commitments, which had been fixed before the change of the date of the Joint meeting from February to May.

Agenda Item 2: Report on the activities of the BSG

2. In the absence of the BSG Chairperson, the BSG Vice-Chairperson (Christian Lajoie) welcomed BSG members. The BSG Vice-Chairperson reported to the Board of Supervisors on the BSG's recent activities since the last Joint BoS/BSG Meeting held in September 2012.

Agenda Item 3: Bank Liquidity Regulation

3. The Coordinator of the BSG 'Bank Liquidity' Working Group (Andrea Resti) provided a presentation on the drivers of liquidity of European corporate and government bonds. His research showed that liquidity drivers act non-linearly under stress and show compounding effects in crisis periods. Further, some bond characteristics affect liquidity significantly and increasingly when markets are under stress. These are:
 - Rating (flight-to-quality)
 - Size of the individual bond issue
 - Duration
4. He highlighted that the drivers appeared to be similar for corporate as well as government bonds. He suggested quantitative regulation could potentially stop higher illiquidity. Further, a bond's duration appears to have a huge impact on liquidity. He suggested incentives should be created for companies to issue plain vanilla bonds.

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5. EBA Staff (Delphine Reymondon and Ivo Jarofke) presented the EBA's approach to its work on liquidity risk. The broad mandate for the EBA was explained including its two main types of deliverables: Binding Technical Standards (BTS, e.g. on uniform reporting formats or outflows corresponding to collateral needs for derivatives) and Reports (e.g. on the economic impact assessment of the Liquidity Coverage Ratio or Uniform definitions for High Quality Liquid Assets).
 6. It was noted that the EBA is required to develop various BTS. Also by 31 December 2013 the EBA needs to submit the Report on the impact of the LCR (Art. 481 (1)) and the Report on appropriate uniform definitions of high and extremely high liquid assets to the European Commission. Furthermore, by 31 December 2015 the Report on the impact of an NSFR as well as BTS/Guidelines in the area of joint decisions and liquidity risk management need to be submitted to the European Commission.
 7. BSG members raised the issue that the EBA's approach may be too narrow and that the EBA should widen its analysis. In that respect the recent Discussion Papers "on Defining Liquid Assets in the LCR under the draft CRR" [EBA/DP/2013/01] and "on retail deposits subject to higher outflows for the purposes of liquidity reporting under the CRR" [EBA/DP/2013/02] were positively acknowledged.
 8. Also, BSG members highlighted differences between the funding of banks in the EU and those in the United States. The funding structure is considered to be fundamentally different and to rely to a higher degree on securitised real estate lending. The industry would generally appreciate to better understand how the EBA's reasoning is based on data and to receive feedback on the industry's analysis. In the discussion, BSG members further highlighted the interaction between liquidity regulation and recovery and resolution planning. It was further noted that banks had in the past built up substantial liquidity buffers and that some of the regulatory requirements may have created distortions for banks.
 9. The EBA Chairperson highlighted that the EBA's empirical analysis had shown that the impact of liquidity regulation to be less strong than often advocated by industry representatives. The BoS noted that liquidity concerns need to remain a high priority, and also a key issue with regard to recovery and resolution planning.

Agenda Item 4: Consumer Protection Issues

10. EBA Staff (Dirk Haubrich) gave an overview over the EBA's objectives and legal mandate on consumer protection and financial innovation. He also made reference to the available policy tools, key concepts, as well as the identification of risks to the EBA's objectives and tasks.
11. The Coordinator of the BSG Consumer Protection Working Group (WG), Robin Jarvis, described the cooperation between the EBA and BSG as well as the expertise of members of the BSG CP WG. The WG has fed into the EBA's policy development process at various junctures and on a variety of outputs, including the EBA Opinions on Good Practices for the

Risk Management of ETFs, Responsible Mortgage Lending, and the Treatment of Mortgage Borrowers in Arrears.

12. The EBA highlighted that it is keen to involve BSG members at an earlier stage in the process. To that end, the EBA recently sent a survey to BSG CP WG members, for them to nominate innovations in financial products, services or processes that they would like the EBA to review.
13. BSG members mentioned selling as an aspect of consumer protection and how banks' risk disclosure is often criticised to be insufficient. In that respect it was raised that the EBA should give thought to the use of behavioural economics and how this could further shed light on its work on consumer protection. In this context, the interplay between consumer protection and recovery and resolution planning was highlighted by BSG members.
14. Also, it was raised whether the institutional framework in the United States could be seen as an example for the EBA's consumer protection work. EBA Staff noted that, in the US, five different authorities are responsible for consumer protection in financial markets in the US, which gives rise to numerous coordination problems.
15. Further, BSG members noted that many national supervisory authorities do not have a consumer protection objective. It was explained that national authorities in the BoS often coordinate nationally with the relevant authorities in case the supervisor is not responsible for consumer protection, in accordance with Article 40 of the EBA Regulation. In addition, in some of the EBA's Standing Committees input is also sought from such national authorities before the issues are tabled at the BoS.

Agenda Item 5: Recovery and Resolution Planning

16. EBA Staff (Stefano Cappiello) presented the work of the EBA on recovery and resolution planning. He made reference to past outputs, namely the EBA Discussion Paper on a European template for recovery plans and the EBA Recommendation on development of recovery plans. Further, he mentioned the current EBA Consultation Paper on RTS on the content of recovery plans [EBA/CP/2013/01] and the two forthcoming consultation papers on two other draft RTS on the "range of scenarios" for recovery plans and RTS on the assessment of recovery plans.
17. Andrew Procter, BSG member, outlined the views of the BSG, and also from his discussions with representatives of other European global systemically important banks. Banks have gathered their first experience with establishing recovery and resolution plans. He advised that national supervisory authorities should not act unilaterally in the assessments of plans. Generally, it was noted that the process of establishing such plans has been positive and important to identify issues that may hinder effective crisis management (e.g. whether critical functions could be maintained). However, banks are working towards an objective that is not yet absolutely clear, such as in relation to the treatment of bail-in.

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18. In addition, Andrea Procter viewed positively the EBA's work on develop TS and Guidelines in this area, and viewed EBA well placed for seeking a greater level of EU consistency. Regarding the actual plans that have been developed, he noted that some banks had developed 10,000 page documents which would in his opinion be useless in an actual crisis situation and that these would need to be scaled back. Also, the external communication of such plans is a sensitive issue and needs to be more closely considered. He suggested that investors would need information also regarding how regulators intend to behave and cooperate in such situations. Furthermore, banks see an increasing demand for individual bank recovery plans and that some national supervisors do not seem to coordinate sufficiently in some cases.
 19. Furthermore, it was highlighted that the interplay between different banks' recovery and resolution plans is not known. Several banks could develop plans that might stand in conflict in case of a systemic crisis and, thus, not be feasible. BSG members mentioned that plans should not aim to describe all uncertainties and that there should be a clear difference between recovery and resolution. BoS members responded that plans, while being important, are also not a substitute for capital, among others.
 20. It was further pointed out by BSG members that proportionality should be taken into account appropriately in the development of plans. The EBA Staff explained that the Directive gives Member States the ability to exempt smaller banks from some of the elements. Also, the level of granularity and details proportionality will be taken into account.

Agenda Item 6: Review of the ESFS, Role of BSG and Joint BSG/BOS meetings

21. Louise Lindgren, BSG member, outlined the BSG's views on its role and its work to date. The BSG strongly supports the arrangements that facilitate stakeholder input to the regulatory process. The BSG's diversity with members from six different constituencies was seen as a strength to the work of the BSG, and that the BSG adds value by agreeing on the positions and thereby bringing together different expertise, experience and perspectives. She noted that with the benefit of hindsight the BSG should have established technical working groups from its beginning.
22. In order to add further value to the work of the BSG, Louise Lindgren suggested several improvements. The BSG could in principle be consulted earlier in the process of formulating regulatory policy. Also, the BSG would welcome more explicit feedback from the EBA on opinions by the BSG. The resources devoted to the BSG and its technical working groups could be enhanced. In addition, the BSG had so far not done an impact assessment due to the non-availability of data.
23. The BSG also mentioned its proposed draft End of Term of Office Report (ETOR) under development, which it intends to finalise before the expiry of its current mandate.
24. The EBA Chairperson explained that the EBA publishes its regulatory products almost immediately after approval by the BoS and that there is little room for an earlier submission to

the BSG. Nonetheless, the EBA will try to get earlier views from the BSG on key issues. Regarding the sharing of further data, EBA is subject to confidentiality requirements and would consider what further data could be made available to the BSG.

25. As this was the last Joint BSG/BoS meeting with the current BSG's setup, the EBA Chairperson thanked the BSG for the input it has provided over its first term of office and recognised the quality of its work.

Agenda Item 7: Any Other Business

26. There was no other business.