EBA BS 2015 010rev1

10 December 2014

London

Joint Board of Supervisors/Banking Stakeholder Group – Final Minutes

Agenda item 1.: Welcome and approval of the Agenda

1. The EBA Chairperson and the BSG Chairperson welcomed the Board of Supervisors (BoS) and Banking Stakeholder Group (BSG) members. The agenda was approved without change.

Agenda item 2.: Report on the activities of the BSG

2. The BSG Chairperson reported to the BoS on the BSG's activities since the last Joint BoS/BSG meeting held on 13 May 2014. The BSG Chairperson indicated the BSG's recent work and submissions provided to the EBA in respect of its Technical Standards, Guidelines and Recommendations under development.

3. It was recalled that the BSG had submitted 18 Opinions since the last Joint BoS/BSG meeting. It was further noted that the BSG had liaised with the EBA staff on specific issues, and in particular regarding the draft SREP Guidelines. Further, the BSG had sent a letter to various EU Institutions regarding the EBA's budget constraints.

4. He also mentioned that the BSG has established an Ad Hoc Technical Working Group to provide to the EBA input regarding the application of proportionality in its work. The BSG Chairperson also informed that the BSG Vice Chairperson and one BSG Member had attended a meeting of the Chairs of the different ESA Stakeholder Groups. Further, the BSG had liaised with the Financial Services User Group and provided contributions to the EBA's Policy Research Workshop held in November 2014.

5. The BSG Chairperson informed the BoS members that two BSG members were standing down.

Agenda item 3.: Stress testing

6. The EBA staff presented the main findings of the 2014 EU-wide stress test exercise. The key methodological aspects were explained regarding the scope of the exercise, including its key features. The EBA staff highlighted the link between the Stress Test exercise and the on-going Asset Quality Reviews undertaken by EU Competent Authorities.

7. It was noted that the exercise provided public disclosure of a large amount of data (about 12,000 data points per bank), including data on capital, RWA, credit risk, and sovereign exposures, securitisation. The data was disclosed both by country and by individual bank, on the EBA's website.

8. The EBA staff presented the aggregate outcome of the stress test exercise. The overall impact of the adverse macroeconomic scenario on the CET1 capital ratio was of 260bps in over 3 years, with CET1 decreasing from 11.1% in 2013 to 8.5% in 2016. Overall, the comprehensive assessment identified a capital shortfall of €24.6 billion across the EU, with 24 banks below the 5.5% CET1 threshold. The EBA staff drew several lessons from this exercise. Amongst the elements to be improved, the EBA staff highlighted that national discretions should be further harmonised, the funding methodology should also be improved. It was also stated that some room for operational improvement would be possible by using the same sets of templates or reducing complexity of the global process.

9. The EBA staff suggested as next steps, the need for additional efforts and work on benchmarking of internal models insofar as the EBA is mandated to coordinate annual supervisory benchmarking of internal models for credit and market risk.

10. One BSG member commented that the exercise was exceptional in terms of scale and duration, which should guarantee the quality of the positive conclusions on the European banking sector. The banks subject to the exercise had been intensely involved, including their senior management, risk functions and finance departments. He also emphasised the use of the stress test as a supervisory tool but warned against it becoming the major one.

11. Amongst the positive points noted, the BSG member drew attention to the quality of the dialogue between the ECB and the Eurozone banks, the regard to those banks' internal models and the amendments to the methodology with regard to the AQR/Stress Test "join-up" following comments made from Eurozone banks.

12. The BSG member also emphasised less positive points regarding the ECB supervisory benchmarks that have been imposed on banks, where there was limited scope for discussion, and profit and loss projections that were different from the "real life" given the use of a static balance in the Stress Test methodology.

13. ECB/SSM Representative presented the stress tests from the perspective of the ECB Single Supervisory Mechanism. He noted that the Comprehensive Assessment was a success in terms of cooperation within the ECB/SSM, in terms of market feedback, and scope and depth of the exercise involving a large number of experts in the process across the SSM. It was also recalled that those Eurozone banks with shortfalls were required to submit capital plans to the ECB/SSM by November 2014.

14. The BSG members raised challenges that the ECB/SSM should address regarding perceived methodological inconsistencies. The BSG members also recalled that the AQR outcomes had

shown a certain misalignment with criteria regarding the provisioning policies which trigger discrepancies across the euro area.

15. The EBA Chairperson noted the considerable effort undertaken to develop and perform an EU-wide stress test exercise. He mentioned other national stress test exercises that focused on specific scenarios/methodologies such as micro-prudential focus on risk management; dynamic balance sheets and macro-prudential focus. He highlighted the importance of a transparent exercise.

16. The ECB/SSM informed that the ECB/SSM had issued a regulation on conflict of interest where individual banks are required to use different auditors for their annual accounts from those involved in the EU-wide stress test. The ECB/SSM raised concerns around capital plans, including accounting aspects. Indeed, the ECB/SSM outlined the need for sound banks' provisions in order to avoid any major disturbance in the coming months while the ECB/SSM achieves its supervision functions.

17. The BSG suggested how to shape the stress tests in the future, noting it may become an annual exercise which requires a deep cooperation between the ECB/SSM and the EBA.

18. The EBA Chairperson recalled that the EBA Regulation required the EBA to assess, at least annually, whether it was appropriate to conduct regular stress tests. Moreover, Competent Authorities have the possibility of running their own national stress tests in addition to the EU-wide stress test. The ECB/SSM representative informed that the ECB/SSM was considering whether it should run a similar widespread exercise in the coming year.

Agenda item 4.: Bank recovery and Resolution. Minimum Requirement for Own Funds and Eligible Liabilities (MREL)

19. The EBA staff introduced the topic by recalling the aim of the particular EBA Regulatory Technical Standards which was required to specify six criteria as set out in the BRRD. The Technical Standard identifies starting assumptions and a common path and default/presumptive approach for the setting of the MREL. Reference was also made to the link between Total Loss Absorbency Capacity (TLAC) and the MREL. Both had the same general purpose and function, namely to ensure that banks internalise their potential cost of failure by requiring them to have sufficient resources to absorb losses and be able to recapitalise without public support. Amongst the positive impacts the EBA staff noted, TLAC and MREL would be essential to reinforce home/host cooperation in the single market, thereby forcing the Competent Authorities to assess the right implementation of TLAC and MREL by the cross border institutions. However, they have different scopes insofar as the MREL applies in principle to all banks in the EU, unlike the TLAC which mainly applies to the [29 identified] globally systemically important financial banks (G-SIFIs). Therefore, the MREL needs to be calibrated on a case-by-case basis and has no common pillar 1 minimum. The EBA staff recalled that MREL rules were consistent with national EU authorities who had chosen to implement TLAC when setting MREL. The BRRD contained a review clause for the MREL legislation in 2016.

20. The EBA staff informed the BSG and BoS members that the consultation was open for 3 months and the deadline for the final Regulatory Technical Standards to be submitted to the European Commission was 3 July 2015. Finally, it was envisaged that the Financial Stability Board (FSB)'s TLAC proposal would be finalised later, probably in November 2015 at a meeting of the G20.

21. The National Resolution Authority Representative provided his view on the link and interplay between resolvability requirements and MREL. The discussant explained that MREL is a key element to remedy a possible obstacle to resolvability, and underlined that the disclosure of MREL is a feature on which further elaboration is needed.

22. The BSG Vice-Chairperson presented his views on the differences and similarities between TLAC and MREL, and focused on the main content of the draft Regulatory Technical Standards on MREL. He added that transparency was required to play a greater role in the draft TLAC/MREL rules since these provisions clearly require that investors, creditors, counterparties and customers have clarity about the order in which they would absorb losses in resolution. He explained further that the "No Creditor Worse-off" principle might urge the Resolution Authorities to exclude senior unsecured debt from MREL on a case-by-case basis.

23. With respect to transparency, several BoS members underlined that in practice MREL should be more flexible than TLAC given its scope of application that covered several thousand EU banks and not only G-SIFIs.

24. The EBA Chairperson highlighted the importance to have adequate disclosure on the MREL and the ranking of different classes of liabilities in resolution and in insolvency.

Agenda item 5.: Banking Culture

25. The BSG Chairperson presented the key findings of a set of UK studies on banking culture[1], to some of which he had contributed. He questioned what elements determine banking culture and whether culture should be a supervisory issue. The idea of introducing strong values in banks was developed in the recent past due to numerous banking scandals that had occurred. He stated that trust and confidence are important to build consensus on the embedded principles of the standards of banking culture. Reference was made to the establishment in the UK of a Banking Standards Review Council (BSRC) which will establish collective Codes of Conduct and monitor banks adherence to them. He also noticed the currently limited role of regulation regarding culture in the banking field.

26. One BSG member further elaborated the issue from a consumer perspective, focusing on the research, conclusions and recommendations of a Consumers International report examining

[1] Among others studies, Banking Standards Review, Report, May 2014; "Virtuous Banking: Placing Ethos, and Purpose at the Heart of Banking" (Llewellyn, David T et al) ResPublica, October 2014; Parliamentary Commission on Banking Standards, "Changing Banking for Good", 2013.

the impact of sales incentive schemes for front office staff in banks and how they drive banking culture.

27. The EBA staff responded by stating that, from the EBA's perspective, bank culture could potentially, in some areas, become a supervisory issue. He sought evidence as to whether the UK experience noted by the BSG Chairperson could be viewed as representative of the entire EU, to assess as to whether the EBA BoS should act. Furthermore, the EBA staff queried whether to implement concrete tools, such as an annual report focused on the promotion of specific values, would have a greater impact than, say, fines on the banks that did not respect certain principles. He also questioned to what extent the suggested approach differed from self-regulation, and to what extent the approach would bring added value given that self-regulation had not worked properly in the past.

28. EBA staff also asked for clarifications as to the meaning of independence that the suggested Board of the BSRC should have, given that industry knowledge and/or input would be required at some point. In response, and noting the Banking Standard Review Council example of bankers' growing awareness in transparency, it was highlighted that it should be independent in the sense that it should not be funded by the banking sector and not be dominated by bankers. The BSG Chairperson clarified his contribution by adding that the Council was an advisory board with a small executive staff headed by a Chair and Chief Executive. Some of the members will have banking experience. In addition, some part-time non-executive Commissioners would be appointed. Whilst most of these would be consumer-orientated people, it is likely that it would also include some practitioner bankers.

29. A BoS member provided his perspective on the topic. He stated that prudential supervisors had to look closely at operational risks and insisted on the accountability of the top management. In certain countries, the banking difficulties were also triggered by collective mistakes, due to the bankers' appetite for developing new financial products and their customers' will to consume. Equally, attention should be paid to bankers' remuneration.

30. The EBA Chairperson considered whether it would be appropriate for the EBA to undertake some analysis of these aspects of conduct risk with a view to developing awareness of top-management regarding operational risks.

Participants at the Joint Board of Supervisors / Banking Stakeholder Group Meeting

London, 10 December 2014

Chairpersons: Andrea Enria (for the BoS), David Llewellyn (for the BSG)

BoS Members

Country	Voting Member / Alternate[1][2]	Representative NCB
Austria		
Belgium		
Bulgaria		
Croatia		
Cyprus	Argyro Procopiou	
Czech Republic		
Denmark		Brian Liltoft Andreasen
Estonia	Andres Kurgpold	
Finland		
France	Édouard Fernández-Bollo	
Germany	Peter Lutz	
Greece	Spyridon Zarkos	
Hungary		
Ireland	Cyril Roux	
Italy	Luigi Federico Signorini	
Latvia	Jelena Lebedeva	
Lithuania	Vytautas Valvonis	
Luxembourg	Christiane Campill	Norbert Goffinet
Malta		
Netherlands	Jan Sijbrand	
Poland	Andrzej Reich	Maciej Brzozowski
Portugal	Pedro Duarte Neves	
Romania		
Slovakia		
Slovenia		
Spain	Fernando Vargas	
Sweden	Uldis Cerps	
UK	Sasha Mills	Fiona Mann; Peter erley

Country	Observers
Iceland	Jon Thor Sturluson

[1] Accompanying experts: Ingeborg Stuhlbacher (Austrian Finanzmarktaufsicht)

[2] Representatives from the Fund for Orderly Bank Restructuring (FROB): Mario Delgado

Liechtenstein	
Norway	Sindre Weme

BSG Members

Name	**Representing**
David T. Llewellyn (Chairperson)	Top-ranking academics
Andrea Resti (Vice-Chairperson)	Top-ranking academics
Alf Alviniussen	Users of banking services
Michel Bilger	Credit and investment institutions
Javier Contreras	Consumers
Mike Dailly	Consumers
Nikolaos Daskalakis	SMEs
Ernst Eichenseher	Credit and investment institutions
Eilis Ferran	Top-ranking academics
José Antonio Gonzalo-Angulo	Top-ranking academics
Sandra Hafner	Credit and investment institutions
Troels Holmberg	Consumers
Zdenek Hustak	Top-ranking academics
Alin Iacob	Users of banking services
Robin Jarvis	Users of banking services
Bostjan Krisper	Consumers
Nina Dietz Legind	Top-ranking academics
Dominic Lindley	Users of banking services
Ute Meyenberg	Employees
Jesper Bo Nielsen	Employees
Robert Priester	Credit and investment institutions
Magdolna Szőke	Credit and investment institutions

EU Institutions and Agencies

Institution/Agency	**Representative**
European Commission	
European Central Bank	Panagiotis Strouzas; Jukka Vesala
ESRB	Francesco Mazzaferro
EIOPA	
ESMA	

EBA Staff

Executive Director	Adam Farkas
Director of Oversight	Piers Haben

Stefano Cappiello, Dirk Haubrich, Cédric Coraillon-Parquet; Stefan Andresen; Santiago Barón Escámez