



EBA BSG 2015 061

Banking Stakeholder Group

23 June 2015/9:30-17:00

Location: London

Banking Stakeholder Group – Minutes

Agenda item 1.: Welcome and approval of the Agenda and the Minutes

1. The BSG Chairperson welcomed the Group's members. The minutes of the 27 April 2015 meeting and the agenda were approved.

Agenda item 2.: BSG Update on developments

A) BSG Chairperson to report on recent developments and other matters

2. The BSG Chairperson reported on the BSG activities. He updated on the Opinions provided by the BSG to EBA's Consultation Papers. He sought volunteers to lead the last EBA's Consultation Papers, namely EBA/CP/2015/11 on Passport Notifications for credit intermediaries under the MCD and JC/CP/2015/02 on Risk management techniques for OTC derivatives. Only the Consultation Paper EBA/CP/2015/09 on Special Landing Exposures was unallocated.
 3. He also flagged various other BSG work, including the individual responses provided to Innovative Payments Survey, the BSG contribution to the risk factors discussion, the Proportionality project, the letter on the EBA's budget that the BSG Chairperson has planned to send to the European Commission, the participation of several BSG members in the Consumer Day in Frankfurt, the papers to be submitted for the Research Workshop and the BSG Paper on the stress tests conducted in 2014.
 4. He also updated on the replacement of the three vacant positions in the BSG, by informing that one member has been appointed by the Board of Supervisors (BoS) in the category of the academics and proposes to launch a Call for expression of interest shortly with a view to appoint two members in the category of consumers.
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B) Amendments of the BSG Rules of Procedure

5. The EBA staff proposed some amendments to the BSG Rules of Procedure (RoP) to smoothen the process of replacement of resigning BSG members. The suggested amendment to the Article 1.6 was approved as follows (by adding the underlined sentence): *“Should a member’s position be vacated for whatever reason before the end of their service, a new member shall be appointed out of the list of applications submitted to the Authority at the latest Call for Expression of Interest for setting up the group. Should the remaining candidates on the list of applications not be considered as suitable to be appointed or should the list be exhausted, the Authority reserves the right to open a new Call for Expression of Interest to replace the respective member of the Group. Members shall serve for a period of two and a half years”*. The BSG members requested the EBA staff to provide clarifications about the duration of the BSG members’ mandate.
6. Regarding the Article 1.5 of the RoP, the BSG members required more clarity and proposed to review the suggested amendments at the next BSG meeting.

C) Update on BSG Technical Working Groups’ activities

7. The coordinator of the Working Group on Recovery, Resolution and Systemic Issues updated on the past and ongoing consultation papers. He highlighted the next steps in recovery and resolution topics as certain relevant papers are under discussion by the Financial Stability Board (FSB) and could have major impacts on the banking sector. He cited the FSB’s works on Total Loss Absorbing Capacity (TLAC), cross-border recognition of resolution actions and cooperation and information sharing.
8. He presented a short overview of the similarities and the differences between TLAC and Minimum Required Eligible Liabilities (MREL), the implementation calendar and informed on structure subordination issues related with TLAC and MREL.

D) Report on proportionality

9. The coordinator of the Ad-Hoc Working Group on Proportionality updated on the progress of the working group since its last meeting on 4 June 2015.
10. The BSG Chairperson requested BSG Members support to address the outstanding issues so as to finalise the report. He observed that there is still an issue on the leverage ratio, as the report does not question sufficiently the impacts for the banking sector in Europe, nor the impacts on consumers, who may be affected through the channel of the banks’ lending activities. He also recommended to find a suitable title, and to provide sharper recommendations.
11. As a general comment, several BSG members pointed out that complex regulation triggers many problems and that it would be possible to reach the same goals without adding any



burden on the banks. One BSG member also showed that the volume of regulation is another issue for the banks, as it is quite substantial at the moment. Overall, several members viewed the importance of considering cumulative impacts of regulation.

12. From a consumer perspective, some BSG member pushed back the idea that regulation is now excessive and disproportionate. The regulation does not go too far to mitigate the risks on the consumers. Thus one BSG member took the example of a risk committee which should be set up in every bank without taking proportionality matters such as the size or the complexity of the credit institutions into consideration. Nevertheless, one BSG member noted that excessive regulation may also trigger the exclusion of the consumers from certain financial services.
13. The EBA staff highlighted the difficulty to properly identify the concept of proportionality, partly because its effects are multiple.
14. The BSG Chairperson questioned about some operational issues regarding the publication and the dissemination of the report. On the first point, it was agreed that the BSG will have the responsibility to write and approve the report and its publication. The EBA will publish the final report on the BSG page of the EBA's website. Most BSG members were in favour of circulating the final report widely. The BSG Chairperson concluded by asking the BSG members to send their comments by 2nd of July to the coordinator and the latter to take into account the comments raised by the BSG members.

E) BSG Opinion to the EBA on Stress Test

15. One BSG member presented the salient points of the BSG Paper on stress tests sent to the EBA senior management. The Paper puts forward the BSG opinion focused on the 2014 stress tests exercise. He stressed the BSG's wish to participate in the design of the new exercise of stress tests with regulators and supervisors, in order to provide input at an early stage and produce a stable methodology.
16. Regarding the macroeconomic scenarios, he indicated that the banks would appreciate more granularity and clarity of the information provided. He reminded the banking industry's preference for a change in the methodology by using dynamic balance sheet assumptions.
17. Regarding the treatment of provisions, some improvements are required by enhancing the actual mechanical application of minimum loss rate which massively penalises banks with high levels of provisions. The methodology of calculating the "one-off" impacts, such as mergers, restructuring costs was also criticised.
18. Regarding the templates and reporting, the BSG member advised that longer deadlines would be appreciated by the banks, as well as a change in the format for the disclosure of financial figures. He also noted his preference to take into consideration EUR as a reference currency for market shocks rather than USD.



19. The EBA Chairperson informed the BSG members that the content of the BSG Paper on the stress tests had been part of the BoS discussion on 16 June 2015 and that the EBA is currently working on the methodology. He informed the BSG members that an EBA draft methodology will be circulated for comments.
20. He also raised the issue of the rationale of stress tests. If the ultimate aim of stress tests is comparability and transparency, dynamic balance sheet assumptions will not reach these two goals. However, if stress tests are conceived like a supervisory exercise, it is more consistent to move towards dynamic balance sheet assumptions. However he also flagged the practical difficulties of moving quickly in this direction.
21. He observed that the BSG Paper is silent on conduct risks, although it is of utmost importance to capture conduct risks in the stress tests. One BSG member noted that the banking industry has generally little appetite for conduct risks. Another pointed out that the design of stress tests may be improved by covering operational and conduct risks. Another member viewed that it will be difficult to apply dynamic balance sheet assumptions to SMEs
22. Another BSG member highlighted the major impact that the new IFRS 9 standards will cause on provisions. He questioned as to how to conduct stress tests reflecting these fundamental changes. The EBA Chairperson replied that he is in favour of launching a separate and specific exercise on IFRS 9 to collect information.
23. Further, another BSG member observed that there was very little room for discussion with the supervisors in the 2014 stress tests exercise and he called for more discussion.

Agenda item 3.: EBA to update on general developments

A) EBA Chairperson to update on general developments

24. The EBA Chairperson updated on the EBA's regulatory products on resolution issues, quoting various topics such as MREL, valuation methodology, contractual recognition of bail-in or simplified obligations. On the Simple, Standard and Transparent Securitisation, he indicated that BSG's inputs have been taken into consideration and the EBA Opinion will be shortly sent to the European Commission. He observed that there was a disagreement on the treatment of ABCP.
25. He informed BSG members that the ESAs were finalising their ITS on the mapping of ECAI's credit assessment. He also referred to the next meeting with bank trade associations on 1st July in the context of the NSFR report.
26. Several BSG members asked questions about the Basel's standardised approach and capital floors focusing on the calibration of the floors in the Quantitative Impact Studies. Some other BSG members observed that the ECB priorities focused on risk appetite and conduct risk. The EBA Chairperson informed that EBA will issue a paper on these areas.



27. More generally, the EBA Chairperson observed that it was a debate initiated in the Basel Committee on Banking Supervision and it was not the EBA's role to disclose the outcomes of the discussion.

B) 2016 EBA Work Programme

28. The EBA Executive Director presented the draft 2016 EBA Work Programme, reflecting the priorities of the Authority in a context of additional mandates and budget constraints. To be more strategic in its work programme, the EBA was seeking BSG suggestions for activities/topics that it should focus on in 2016.

29. Some BSG members expressed their views on the EBA's priorities, highlighting the importance of the Anti-Money Laundering issues and the possibility for further actions in this field. Other BSG members questioned about the tools used to achieve the supervisory convergence. The EBA Executive Director replied that the EBA was requested to do more in terms of supervisory convergence in spite of limited powers, such as planning to strengthen thematic reviews and perform more peer reviews.

C) Update on Risks and Vulnerabilities

30. The EBA staff updated on risks and vulnerabilities in the EU. In terms of capital and profitability, they noted that capital ratios are growing but profitability remains subdued. They highlighted that there were material differences between the profitability drivers across the countries in Europe. They assessed the asset quality as low and widely dispersed across the countries. Forbearance data support the picture of fragmentation in asset quality. Besides, encumbrance data show differences in levels of central bank funding. The ratio of encumbered assets to central bank eligible assets is on average about 40%. They noted that banks' spreads are still rising, but market sentiment for bank funding slightly improved during the last weeks with moderate issuing activity. However, there is an ongoing trend of increasing risk premia, mainly on the long end and fears that this might appear in the shorter end.

31. One BSG member raised a methodological point on the origin of the data collected by the EBA. The BSG Vice-Chairperson raised the issue on the disclosure of data as it is a crucial aspect for researchers/academics. The EBA is considering releasing the data.

Agenda item 4.: EBA to update on its work on consumer activities followed by a discussion by BSG members

32. The EBA staff updated on EBA's work in the following areas:

- a) The guidelines on product oversight and governance arrangements (POG) for retail banking products which will apply from 3 January 2017;



- b) The EBA aims to publish the 2015 edition of its Consumer Trends Report 2015 in the coming days, which contains BSG's input. Eight relevant trends have emerged: household indebtedness, transparency and comparability of banking fees, innovation in payments, structured deposits, commercial selling practices, the use of banking consumer data, alternative financial services providers, and interest rates and its effects on consumer contracts, both on deposits and loans.
- c) Its work on mortgages initiatives. The Guidelines on Creditworthiness Assessments, Guidelines on Arrears and Foreclosure and Opinion on Good Practices for Mortgages were published on 1 June 2015. The EBA staff acknowledged BSG's responses to the consultations on the two Guidelines. In addition, the draft Guidelines on Passport Notifications for credit Intermediaries were published on 4 June 2015 for a one month consultation.
- d) On Payments related work the Guidelines on the security of internet payments will be applicable as of 1st August 2015. On 21 May 2015, the EBA issued a press release outlining its upcoming initiatives for the regulation of retail payments, and EBA staff updated BSG members on the contents of the press release.
- e) A Technical Discussion Paper on PRIIPS published earlier this year and which will be followed by consultation papers on draft RTS on Article 8, 10 and 13 of the PRIIPs Regulation later this year.
- f) Feedback on the consultation to the JC Cross-selling Guidelines launched in November 2014. The ESAs will address comments, including a response from the BSG received during the consultation, in the feedback statement.
- g) On Joint ESAs work on automated financial tools. This aims at advising consumers with the purpose being to assess the extent to which the use of automated financial advice tools that support the purchasing of a financial good or service by a consumer raises issues for consumers and/or other market participants.

33. One BSG member questioned about the methodology used to draft the Consumer Trend Report. The Consumer Trends Report is primarily based on the consumer protection priorities identified by national supervisory authorities in the 28 EU Member States. In addition, the EBA analysed statistical datasets and reports produced by independent research institutes and other organisations on the market trends across several categories of financial services. Further input was received from the EBA's Banking Stakeholder Group (BSG), whose members were asked to name the trends they have observed and the topics they therefore consider the EBA should address in 2015. Finally, the EBA received input from national ombudsmen across the EEA, via the Financial Dispute Resolution Network (FIN-NET) as well as complaints data on banking products received from both NSAs and FIN-NET members.



34. On Secure Pay initiatives, one BSG member asked about the nature of relationships between the ECB and the EBA. The EBA staff responded that the EBA is closely cooperating with the ECB's Secure Pay Forum on the payments' security related issues.
35. Another BSG member raised a concern regarding the financial charges imposed by the banks when a customer transfers some money. He also suggested that the dynamic currency conversion was a disadvantage for the consumers and called for EBA's intervention.
36. The BSG Chairperson raised concerns about crowdfunding and P2P lending. The EBA staff reminded that the EBA published an Opinion on lending-based crowdfunding in February 2015. Another BSG member informed that the European Commission's Financial Services User Group (FSUG) had commissioned a large piece of work on crowdfunding, including specific work on consumer's perception of crowdfunding.
37. The EBA staff provided feedback on the Joint ESAs Consumer Day recently held. She informed that the next such event will take place in Paris, on 2nd June 2016. One BSG member viewed the day important and called for a more structured organisation in the future.

Agenda item 5.: Discussion on SME lending

38. One BSG member presented the topic. He noted that SMEs employ 2 in every 3 employees and produce 58% of added value. However he observed that the recovery is partial and fragile although the access to finance has been gradually decreasing and came last in the list of problems SMEs' face. However, large differences across the EU still remain in this regard. He noted that bank-related products are the most relevant sources of finance for euro area SMEs. However, fear of rejection and actual rejection are the key obstacles to receiving a bank loan. Generally, there is a lack of consistent data to monitor capital flows to SMEs and to have a clear view of the issue. Micro and self-employed enterprises (92% of total number) are even more opaque and show distinct specificities.
39. One BSG member developed a Spanish case study highlighting that the new lending and the stock of loans to SMEs continue to grow in Spain. Another BSG member observed that a crucial point is the differentiation between the SMEs as micros are a particular category of SMEs with different features.
40. Another BSG member raised several concerns as to the cost for SMEs to access finance, payment or loans or financial services. The SMEs have a significant need for start-up capital, but the alternatives to the banks' loans are fragile. Crowdfunding and P2P markets are possible alternatives to have a capital base but these markets are unregulated.
41. Another BSG member pointed out that the European Banking Federation is working on this issue but the main issue still remain the differences between the European countries. Another alternative to finance SMEs might be the reform of securitisation.



42. The BSG Vice-Chairperson also questioned about the lending rates applied to the SMEs, the cost of loanable funds, the loss rate experienced by the banks during the financial crisis.

43. The EBA staff presented the EBA mandate to analyse SME lending and how it was affected by the Supporting Factors. The EBA staff introduced the idea of supporting factors to provide adequate lending to SMEs.

44. Further the EBA will issue a Discussion Paper to initiate a discussion and collect evidence from industry and other stakeholders, as it is important to better understand the problem faced by the SMEs.

Agenda item 6.: EBA to update on regulatory products under development followed by a discussion by BSG members

A) Draft RTS on derivatives valuation in bail-in

45. The EBA staff presented the draft RTS on derivatives valuation in bail-in. These RTS provide resolution authorities with a series of principles and tools to carry out a swift and objective valuation of derivative liabilities, which could contribute to the application of the bail-in resolution tool.

46. One BSG member put forward some methodological issues, focusing on OTC derivative valuation and the lack of data to reach a precise valuation.

47. The draft RTS is currently under public consultation until 13 August.

B) Corrigendum on RTS on Non Delta risk and CRD Remuneration provisions

48. The EBA staff updated the BSG on the EBA submitted technical standards to the Commission last year on identified staff for the purpose of the CRD remuneration provisions, and on non-delta risk of options in the standardised market risk approach. The EBA identified that when the Commission endorsed the texts it made some changes which contained errors that needed to be corrected. Therefore, the EBA has prepared a new set of RTS which will amend the regulations adopted by the Commission to correctly reflect the intention of the original RTS submitted by the EBA. Given the urgency to remedy the adopted and published text and the lack of any policy change from the text originally submitted by the EBA to the Commission, the EBA did not intend to consult but sought to seek the opinion of the BSG in this regard.

49. The BSG Chairperson noted that the BSG will not issue another Opinion on these RTS.

Agenda item 7.: AOB



50. The BSG Chairperson requested the BSG members to think of potential topics to be discussed at the next BSG and BSG/BoS meetings to be held on 26 and 27 October 2015, respectively.



List of participants

Participants at the meeting of the Banking Stakeholder Group (BSG)

London, 23 June 2015

<u>BSG Member</u>	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
Nikos Daskalakis	SMEs
Santiago Fernández De Lis	Credit and investment institutions
Chris De Noose	Credit and investment institutions
Ernst Eichenseher	Credit and investment institutions
Jose Antonio Gonzalo-Angulo	Top-ranking academics
Sandra Hafner	Credit and investment institutions
Troels Hauer Holmberg	Consumers
John Hollows	Credit and investment institutions
Alin Iacob	Users of banking services
Robin Jarvis	Users of banking services
Bostjan Krisper	Consumers
Nina Dietz Legind	Top-ranking academics
Louise Lindgren	Credit and investment institutions
Dominic Lindley	Users of banking services
Sabine Masuch	Credit and investment institutions
Ute Meyenberg	Employees
Jesper Bo Nielsen	Employees
Robert Priester	Credit and investment institutions

From the EBA

Andrea Enria – EBA Chairperson
 Adam Farkas - Executive Director
 Ioannis Bolossis
 Charles Canonne
 Marina Cernov
 Cédric Coraillon-Parquet
 Denise Delaney
 Pilar Gutierrez
 Orestis Nikou
 Elisabeth Noble
 Jonathan Overett Somnier
 Andreas Pfeil
 Tea Turcaniova