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| EBA BSG 2024 012 |
| Banking Stakeholder Group |
| 08 February 2024 |
| Location: teleconference |

# Banking Stakeholder Group

## Minutes of the conference call on 08 February 2024

### Agenda item 1: Welcome and approval of the agenda

1. The BSG Vice-Chairperson opened the conference call and welcomed the Members. He asked if the Members had any comments on the agenda of the meeting. The Members did not raise any comments.

2. The BSG Vice-Chairperson asked the Members whether they had any further comments on the Minutes of the BSG conference call on 14 December 2023. The Members did not raise comments and approved the Minutes.

3. The BSG Vice-Chairperson reminded the Members that the end of term report had to be finalised by the next BSG meeting in May.

4. The EBA Head of Governance and External Affairs Unit (GEA) announced that the EBA was planning to issue a call for candidates for the next BSG by the end February with a deadline for applications by the end of March. The candidates would be applying using the online tool – EU Survey.

#### Conclusion

5. The BSG approved the agenda of the meeting by consensus.

6. The BSG approved the Minutes of the BSG conference call on 14 December 2023 by consensus.

### Agenda item 2: BSG update on the latest developments

7. The BSG Vice-Chairperson invited the coordinators of each working groups to update on their activities. The coordinators presented a joint work plan for several working groups in three areas – Basel III implementation and relevant EBA mandates, Pillar 3 and ESG. The coordinator of the resolution working group asked the EBA Chairperson on potential tasks following the new SRB strategy which would be presented in the coming days. The EBA Chairperson clarified that the EBA was in close contact with the SRB and that main focus in 2024 would be on liquidity issues and operationalisation of resolution plans. On consumer-related work, the coordinator

mentioned that the BSG recently submitted to the EBA the BSG response to the consultation on Guidelines on complaints handing of credit servicers. With regards to the working group on payments, the coordinator informed about a cooperation with the stakeholder groups of the other ESAs on the analysis of second batch of DORA consultation papers. On sustainable finance, the coordinator referred to a call with the EBA staff on a potential own-initiative paper as well as to the support statement of the ISSB work in relation to high quality climate-related disclosures at the global level. Finally, the coordinator of the AML working group announced that the group was preparing a response to the Travel rule Guidelines.

## Agenda item 3: EBA update on general developments

8. The EBA Chairperson highlighted some of the major developments since the December conference call.

9. Firstly, the EBA Chairperson informed that late in December, the EBA published its discussion paper on the centralisation of EEA banks Pillar 3 disclosures in the EBA Pillar 3 data hub as well as first consultation papers on the Basel III mandates as per the Roadmap on the Banking Package which was also published in December 2023. He welcomed the BSG's planning and work on these regulatory products.

10. Secondly, the EBA Chairperson acknowledged the publication of the EBA response to the European Commission's call for advice on green loans and mortgages; Report on the deposit coverage level and coverage of deposit guarantee schemes, in response to a call for advice by the European Commission as well as the Q3 2023 quarterly Risk Dashboard (RDB) together with the Risk Assessment Questionnaire (RAQ)

11. Thirdly, the EBA Chairperson referred to the publication of the first set of final draft technical standards under the Digital Operational Resilience Act (DORA) aimed at enhancing the digital operational resilience of the EU financial sector by strengthening financial entities' Information and Communication Technology (ICT) and third-party risk management and incident reporting frameworks which the EBA developed together with ESMA and EIOPA.

12. Fourthly, the EBA Chairperson noted that at the end of January, the EBA launched an industry survey to receive input from credit institutions on their methodologies to classify exposures to environmental, social and governance (ESG) risks, as well as on the accessibility and availability of ESG data for this purpose. The objective of the survey was to collect qualitative information on credit institutions' current practices to inform the EBA's work on the feasibility of introducing a standardised methodology to identify and qualify exposures to ESG risks. The deadline to respond to the industry survey was 29 March 2024 and the BSG members were welcome to submit their input.

13. The EBA Chairperson also mentioned upcoming public hearings - on Guidelines on internal policies, procedures and controls to ensure the implementation of Union and national restrictive measures; on amending RTS on FRTB and amending RTS on SA-CCR and the ESAs open hearing on the ESAP draft implementation standards. In this regard he reminded the Members of the

discussion during the conference call in December and said that the ESAs published, as planned, on 08 January 2024, a joint consultation paper on draft ITSs under Article 5 and 7 of the ESAP Regulation. The draft ITSs specified certain tasks of collection bodies and certain functionalities of the European single access point under Regulation (EU) 2023/2859. He invited the Members to provide their input on the consultation paper in order to allow the ESAs to finalise the draft and submit it to the European Commission. The deadline for the BSG advice is 08 March.

14. One Member asked for further details on the ESAP ITS and noted that one working group could further analyse the topic. Another Member asked about a consultation on the Guidelines on re-submission of historical data and expected next steps.

## Agenda item 4: Risks and vulnerabilities in the EU (B-Point)

15. The EBA Senior Bank Sector Analyst updated the BSG on the latest developments in the EU/EEA banking sector's risks and vulnerabilities. He stated the main challenges for the banking sector were the resilience of net interest income, loan growth (both demand and supply of credit), the macroeconomic challenges and asset quality, cost control, sustainability of profits, and consolidation of the sector and non-bank sector links. He noted that European banks had a sound capital position and stable liquidity indicators. There were some challenges for the latter not least evolving from the need to repay the final TLTRO III outstanding amounts, as well as for example the possible introduction of a digital euro. He also mentioned that despite the higher funding costs, market conditions were favourable for market funding. Primary markets have been very active in January 2024. On deposits, the Senior Bank Analyst said that total deposit volume slightly increased in November 2023 and that the trend of households' deposits shifting from sight to term-deposits has been slowing down. Increasing deposit betas – together with subdued loan growth – may have negative implications on profitability. Banks across Europe have been tightening their lending standards and demand for loans remains weak. As a result, loan growth remained subdued, and according to the banks' survey, banks were reluctant to increase their lending exposures. Asset quality remained robust but expecting some deterioration with a slight increase in NPLs, albeit from a low level. He concluded by acknowledging that real estate related exposures (both commercial and residential) appeared more vulnerable, as a higher share of banks, compared to the previous RAQ, expect a deterioration in the asset quality of these portfolios.

16. Members welcomed the presentation. One Member commented how share prices had suffered, particularly from a Nordic perspective. She stated that this was surprising given that the fundamentals of banking risk drivers were similar. She also noted that the latest quarterly reports had provoked positive reactions in share price without much change in the fundamentals of the banks and that there was a risk of overinterpreting these quarterly reports. She further mentioned, regarding expectations by region, that there were significant expectations of deterioration. When checked against credit losses, they were very stable, so expectations were not in sync with banks' reporting. Another Member asked whether slowing loan growth turned negative and whether, considering the lag between loans and economic impact, could the lack of fresh loans lead to a recession or indicate a credit crunch. Other

Member asked whether in the EU, the large, robust banks have experienced more negative equity impacts. She commented on the influence of the Basel III RWA requirements as a driver for poor performance. She further stated the market seemingly doubted the implementation or expected delay of Basel III. Other Member commented that some analysts had indicated a significant decrease in one country's NPLs since 2022, despite the small increase seen by the EBA. Another Member referred to their national developments and said that some jurisdictions had lagged in response time concerning deposits remunerations when interest rates were increasing while others have acted swiftly to lower deposit rates before any ECB policy changes. This showed a delay in policy effects when rates rose, but quick assimilation when they reduced. He expressed possible concerns on how the banks were behaving in terms of transmitting monetary policy.

17. In his response, the EBA Senior Bank Sector Analyst noted that weak GDP growth and reduced lending risk were a mutually reinforcing downward spiral. He also said that some disparities among countries were evident, despite country variations, EU figures indicated a contraction in loan growth. With share buybacks and dividends, banks were significantly rewarding investors, leading to unique impacts across the sector. The issue was not about depleting buffers, but about banks maintaining capital above the capital requirements. On the specific case of NPLs, the EBA Senior Bank Sector Analyst clarified that there had been a decline but since September 2023, data having remained stable.

18. The EBA Chairperson further commented that in general, analysts and investors viewed Basel III implementation as mostly already internalized by banks. Its impacts were understood, and it addressed weaknesses identified in level 1 texts.

## Agenda Item 5: BSG work on ESG – greenwashing and follow up on green loans

19. Two BSG Members presented a summary of one BSG workstreams on topics related to ESG issues. In their presentation, they reflected on the EBA Report on green loans and mortgages and its potential impacts on further legislative development in this area. They welcomed the recommendations on specific green label and green loans definition, also on the establishment of these as voluntary. This would be essential to enable market participants to support the EU green goals without necessarily always fully aligning with the technical screening criteria of the taxonomy. On the other hand, they were of the view that the taxonomy was too narrow. The European Commission (EC) would need to recognise and define clear rules and credible standards for green loans to minimise environmental harm and avoid the risk of greenwashing. They further proposed to review the Mortgage Credit Directive (MCD) and to improve information requirements, with the need for added clarification on borrowing conditions based on the energy performance of the building. In their presentation, the Members also referred to the Study on Green Finance in Spain and provided an overview of consumers' views on sustainable finance from various sources. They said that tax deductions and mortgage conditions were identified as the biggest factors for Spanish consumers and noted that green loans were more expensive than traditional mortgages, and the reason for this was still unknown. The Members concluded by mentioning that only one-third of participants in the

Study knew whether their money was invested in ESG activities. They also stressed that many of the biggest banks were willing to provide services to support the transition to sustainable finance and offer more favourable financing conditions for investments consistent with the EU taxonomy and increase costs on non-sustainable products. Challenges included a lack of data/low quality of customer disclosures, an increasing amount of regulations/lack of final transparent regulations. The overall market had many products available including payment cards, bond issuance, and mortgages, many of them arising from EC/government subsidies. Consumers would appreciate environmental standards and certificates to confirm green activities.

20. The Members welcomed the work. One Member noted that green loans were more expensive than traditional loans, a trend contrary to the Nordic markets. She highlighted the importance of defining green loans, focusing on retail products, and avoiding overly broad definition of greenwashing that could deter banks from supporting greener sectors. Another Member acknowledged some peculiar practices in markets where green loans were more expensive. He raised concerns about the potential exclusion of lower-income households and the need for reliable industry standards for certificates. One Member questioned the calculation of the average 7.3% for car loans. He advocated for a consumer-centered approach considering financial literacy. Another BSG member reiterated the topic of voluntary labels and transition. She said that any strict label had to be voluntary, and that mandatory labels may not fit all specificities. Further, she suggested having two definitions of a green loan and a greening loan linked to transition. She also noted that one entity should have only one transition plan, and that the plans referred to in the ESG Guidelines should be consistent with banks' transition plans. One Member presented an Italian case study, highlighting issues with access to reliable data and the need for transparency and a strict punitive system for voluntary labels. Another Member stressed the necessity to have clear taxonomy and definitions. She called for education of terms from the regulators to have clarity of greenwashing to adapt approaches. Other Member was of the view that standards like a sustainability-linked loans / bonds should coexist with the green loans / bonds definitions. She pointed out that the EU taxonomy differs from national taxonomies, which could cause issues with labelling something as green due to these differences.

21. The BSG Chairperson mentioned the lack of standardisation as one of the reasons greenwashing was so prevalent. She suggested that developing and enforcing clear, rigorous standards could help mitigate greenwashing and support the green transition. Several Members also stressed the importance of transparency and accountability and suggested that transparency through reporting and independent verification of environmental claims could help reduce greenwashing. This included supporting licensed initiatives that offer third-party verification. Finally, the Members highlighted the importance of consumer education about what genuine sustainability efforts look like and suggested that this could empower consumers to make more informed choices, pushing the market towards true green practices.

22. The EBA Head of ESG Risks Unit (ESG) referred to the voluntary nature of the label and the developing market for green loans. She suggested promoting a voluntary EU label and

maintaining the distinction between green and transition finance. She also mentioned the connection between the definition of greenwashing and transition finance and said that a broad definition of greenwashing would not impede financing transition if firms were transparent. Furthermore, she informed that the Greenwashing report would be published by the end of May and it would contain among others an updated information from NCAs and some recommendations.

23. The EBA Policy Expert continued by mentioning that banks should not have to develop inconsistent transition plans and should consider risk management aspects as part of broader transition planning. He noted that the final report on greenwashing would illustrate some sound market practices which could protect institutions from accusations of greenwashing when engaging with certain activities.

## Agenda Item 6: Update on MiCA (A-Point)

24. The EBA Head of Digital Finance Unit (DF) introduced the item and the EBA Experts provided an update on MiCAR Level 2/3 policy development, MiCAR supervision and MiCAR supervisory handbook. With regard to policy development, the EBA Expert mentioned that the EBA was responsible for drafting of 20 RTS / ITS / GLs under MiCAR (two of them jointly with ESMA, one jointly with both ESMA and EIOPA). Consultation papers on 18 mandates have been published already. The EBA Expert drew attention to the consultation on the draft RTS on conflicts of interest with a deadline for comments on 07 March 2024 on which the EBA would particularly welcome BSG input. The EBA Expert also noted that the EBA was preparing the publication of the consultation paper on draft Guidelines on redemption plans, which was expected to be published toward the end of February/early March. She explained that issuers of asset-referenced tokens (ART) and of e-money tokens (EMT) were requested to develop redemption plans for the orderly redemption of token where the issuer was assessed by the (MiCAR) competent authority 'to be unable or likely to be unable to meet its obligations'. The development of the redemption plan aimed to ensure the practical implementation of the right of redemption set out in MiCAR. The EBA has been mandated to specify (a) the content of the redemption plan and the periodicity for review; and (b) the triggers for implementation of the redemption plan. This was a complex mandate and the EBA would welcome BSG input in the context of the consultation period. The EBA Expert also highlighted the upcoming consultations on the joint-ESA Guidelines on the classification of crypto-assets (expected to be published for consultation around mid-2024), and the EBA's own initiative GL to address reporting gaps (in relation to ARTs and EMTs) which was also expected to be published for consultation around mid-year. On MiCAR supervision, the EBA Expert explained the EBA supervisory role under MiCAR as of 2025 and provided an overview of the three pillars of EBA supervisory approach, namely: 1) the development of dedicated policies, procedures and methodologies to address all aspects of supervisory activities; 2) the design of robust supervisory processes through quality assurance controls; 3) and the exchange of information to build supervisory capacity. She also introduced the Crypto Coordination Group (CSCG), it's governance arrangements and roles and objective. The establishment of the CSCG was one of the first steps in the EBA preparatory actions on MiCAR supervision to facilitate supervisory dialogue and build supervisory capacity.

Finally, the EBA Expert summarised the MiCAR supervisory preparedness workplan, including deliverables planned for the first and second half of 2024. With regard to the MiCAR Supervisory handbook, she explained that the Supervisory Handbook would be developed in cooperation with competent authorities (CAs) for the supervision under MiCAR. It would be addressed to CAs and to the EBA in its supervisory function and aimed to establish common supervisory practices for the supervision of ART and EMT issuers. It would also complement the single rulebook providing practical support to CAs for the implementation of the regulatory framework in their day-to-day supervision. In line with the EBA's mandate, the handbook would facilitate the consistent application of the regulation and promote consistent treatment of supervised entities.

25. The Members welcomed the update. One Member asked about supervisors responsible for banks who were issuing asset-reference tokens. Other Member elaborated on the issue of ETFs and regulatory arbitrage risks and asked how the EBA was addressing these cross-sectoral issues also with the other ESAs. Two Members acknowledged the importance of the set-up of the Crypto Coordination Group and highlighted the need to a forum where supervisors could exchange information and practices.

26. In her response, the Head of DF explained that the MiCAR specified responsible supervisors based on the type of issuer, in cases of banks in the EU, this would usually be SSM. She also noted the essential importance of the Crypto Coordination Group and its preparatory function for new supervisory tasks.

27. The EBA Expert explained that the EBA's and also the ESAs' aim, when developing the joint Guidelines on classification, was to promote convergence and avoid any situations of regulatory arbitrage. The EBA/ESA wider roles in promoting convergence via supervisory discussions, and in the contexts on preparing Opinions, at the request of CAs on the regulatory classification of individual tokens would also contribute to this objective. She encouraged BSG Members to continue to share any novel token cases to help inform the EBA/ESA work.

## Agenda item 7: Roadmap on Basel III implementation (A-Point)

28. The EBA Expert presented the EBA Roadmap on the banking package together with expected delivery dates of the final regulatory products. He explained that the EBA staff has been actively working on detailed planning for each product and has been preparing publications of several consultation papers in the coming months to which the BSG feedback would be welcomed. He also highlighted that 18 months were needed for each product to be completed.

29. One Member recalled reviewing the list and highlighting the products where the BSG could add value. Another Member asked about logistics, specifically if a rolling update of the roadmap was planned, as the mandates would gradually move up the schedule. He also asked if this was in the interest of the next BSG.

30. In his response, the EBA expert welcomed the BSG's interest and agreed to provide updates on the work.

## Agenda item 8: PSD3, PSR and Open Finance – an overview of the EBA mandates proposed by the European Commission (A-Point)

31. The EBA Senior Expert introduced the item by reminding the Members of the EBA's extensive work in support of the PSD2 over the last eight years, including developing 12 mandates, seven Opinions and over 300 Q&As, and the EBA Opinion published in June 2022 in response to the Call for Advice received from the EC on the review of PSD2, which included more than 200 recommendations on how PSD2 could be improved. She continued by presenting the 30 + mandates for the EBA, proposed by the EC in the PSD3, PSR and FIDA proposals published in June 2023, and noted that discussions in the Council and European Parliament on these proposals were expected to continue throughout 2024, with the entry into force date in 2025 and application date in 2027.

32. The Members welcomed the overview of the mandates. One Member questioned whether the EBA has already considered timelines and stakeholders' involvement for the delivery of the mandates. Another Member asked about direction of discussions at the Council and European Parliament level, in particular regarding provisions on prevention of fraud. He mentioned that, in his view, the requirements in the PSR proposal on fraud prevention and liability for fraudulent transactions were insufficient and did not properly address social engineering fraud and new types of fraud that were on the rise. Another Member complemented these views by stressing the importance of having appropriate safeguards in the PSR to protect consumers against social engineering fraud, including from complex scams where fraudsters used deepfake technology and AI to trick consumers into making a payment. Also, another Member shared their experience with the implementation of the PSD2 provisions on open banking and on the implementation of fraud awareness campaigns in the Nordic countries.

33. The EBA Senior Policy Expert explained that discussions between co-legislators on the PSD3, PSR and FIDA proposals were expected to continue throughout 2024, and that as a result changes to these proposals, including on the proposed EBA mandates, can still occur in the next 12 months. She assured Members that stakeholders would be involved in the development of the EBA mandates, through public consultations. She also thanked Members for sharing their views and experience on fraud mitigation, echoed the view raised on the importance of having appropriate safeguards to protect consumers against fraud, and noted that the PSR proposal envisages several measures to combat fraud, including the IBAN name/check, enhancing consumer awareness, sharing of fraud information amongst PSPs and enhancing transaction monitoring.

## Agenda item 9: EBA mandate on the application of derogations from the requirements to partly pay out the variable remuneration under deferral arrangements and in instruments (Article 94(3) CRD) (B-Point)

34. The EBA Senior Expert introduced the item by explaining that the EC, in close cooperation with EBA, has been mandated to review and report on the application of derogations under Article 94(3) Directive 2013/36/EU (CRD) from the requirements to pay out the variable remuneration of staff that had a material impact on the institutions risk profile (identified staff) partly under

deferral arrangements and in instruments, and to submit that report to the European Parliament and to the Council. The review report should be submitted by the end of June 2024. She continued by clarifying that such derogations applied to small institutions and staff with a low level of variable remuneration. Points (l) and (m) of Article 94(1) CRD required that variable remuneration for identified staff was paid out partly in shares, share-linked or other instruments and under deferral arrangements. The pay out in instruments aimed achieving an implicit risk alignment via the change of prices of instruments, while the application of deferral forms the basis for the application of malus to the variable remuneration awarded in the past. These effects were reduced by the derogations within small institutions and for staff with a low level of variable remuneration. The Senior Expert summarised main areas identified by the EBA where effects of derogations might be relevant, mentioning administrative burden, recruiting, and retaining identified staff, alignment between variable remuneration and risk, or a group context. She also mentioned that the EBA has been asking the BSG for input on the effect of derogations and whether they achieved their intended purpose by 15 March 2024.

35. The Members welcome the work and informed that a working group has been collecting feedback to the questions asked by the EBA. Some Members appreciated the reduction in administrative burden, but explained that it was not easily quantified and also did not believe this had caused a change in behaviours. One Member further mentioned that the derogation allowed smaller banks in the savings system to be on a more level playing field with the bigger banks. The impact was not really quantifiable, but the monitoring system would not produce any significant costs. No impact on recruitment or retention was seen, but there was a positive, albeit not material, impact on the bank. Another BSG member commented on the administrative burden versus the competitive advantages.

36. The Senior Expert expressed understanding of the difficulties in quantifying the impact but welcomed feedback.

37. The EBA Chairperson emphasised that the alignment of the remuneration was important with the risk-taking practices of the banks.

## Agenda item 9: AOB

38. The BSG Vice-Chairperson informed that during the conference call, the coordinator of the work on the support statement of the COP28 ISSB circulated the final version and asked for comments until next days. Afterwards, the statement would be sent to the EBA for publication.

39. In response to the question of one Member on the Guidelines on re-submission of historical data, the EBA Expert informed that the Guidelines would be published in March.

40. Next meeting: 24 April 2024 (Joint BoS/BSG conference call) and 30 May 2024 (physical meeting).

# Annex 1: Attendance list

## Participants of the Banking Stakeholder Group confernecee call on 08 February 2024

### Attending

| First Name | Surname | Institution | Country |
|---|---|---|---|
| Sebastian | Stodulka | Erste Group Bank AG | Austria |
| Edgar | Loew | Frankfurt School of Finance and Management | Germany |
| Leonhard | Regneri | Input Consulting GmbH | Germany |
| Concetta | Brescia Morra | University Roma Tre | Italy |
| Monika | Marcinkowska | University of Lodz | Poland |
| Maria | Ruiz de Velasco | RegGenome | Portugal |
| Alin | Iacob | AURSF (Association of Romanian Financial Services Users) | Romania |
| Monica | Calu | Asociatia Consumers United/Consumatorii Uniti | Romania |
| Eduardo | Avila Zaragoza | BBVA | Spain |
| Patricia | Suarez Ramirez | ASUFIN | Spain |
| Vinay | Pranjivan | Associação Portuguesa para a Defesa do Consumidor | Portugal |
| Vėronique | Ormezzano | Vyge Consulting | France |
| Rym | Ayadi | City University of London, Business School and CEPS | Belgium |
| Rens | Van Tilburg | Sustainable Finance Lab | Netherlands |
| Christian | Stiefmueller | Finance Watch AISBL | Austria |
| Johanna | Orth | Swedbank | Sweden |
| Sėbastien | De Brouwer | European Banking Federation | Belgium |
| Andrea | Sità | UILCA Italian Labor Union - credit and insurance sector | Italy |
| Lidwin | van Velden | NWB Bank | Netherlands |
| Jennifer | Long | International Monetary Fund | Ireland |
| Julia | Strau | Raiffeisen bank International AG | Austria |
| Wolfgang | Gerken | J.P. Morgan SE | Germany |
| Yuri Che | Scarra | UBS Europe SE | Italy |
| Constantinos | Avgoustou | Regtify | Cyprus |
| Elie | Beyrouthy | American Express | Belgium |
| Martin | Schmalzried | COFACE-Families Europe | Belgium |
| Tomas | Kybartas | Lithuanian Consumers Alliance | Lithuania |
| Christian | König | Verband der Privaten Bausparkassen e.V. | Germany |

**<u>EBA</u>**

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| Chair | Jose Manuel Campa |

**Heads of Unit**

Philippe Allard
Dorota Wojnar
Ruta Merkeviciute

**EBA experts**

Tea Eger
Andeas Pfeil
Margarita Steinbach-Shmeljov
Larisa Turgui
Fabien Le Tennier
Desislava Petrova
Lot Anne
Elisabeth Noble
Gabriel Cardi
Samuel Myer

For the Banking Stakeholder Group

Done at Paris on 28 March 2024

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| [signed] | [signed] |
| José Manuel Campa | Rym Ayadi |
| EBA Chairperson | BSG Chairperson |