EBA BSG 2020 046

Banking Stakeholder Group

16 December 2020

Location: Webex remote meeting

EBA-Regular Use

Banking Stakeholder Group meeting – Minutes

Agenda item 1: Welcome, adoption of the agenda and the minutes of the last meeting

1. The BSG Chair welcomed the members of the group.

2. No member declared any conflict of interest regarding the agenda items.

3. The BSG members approved the agenda.

4. The BSG members adopted the Minutes.

Agenda item 2: Update on the latest developments (B-point)

5. Firstly, the EBA Chair introduced to the BSG members the EBA's newly appointed Executive Director, François-Louis Michaud.

6. Then, the EBA Chair updated the BSG members on the latest ongoing internal and regulatory developments of the EBA. In particular, he provided details on (i) the EBA's internal organisation with regards to Covid-19 and its related activities (moratoria guidelines resume, position on dividends' distribution, latest risk assessment) ; (ii) an overview on planned public consultations and requested BSG input; (iii) the EBA answer to COMs Call for Advice on insolvency benchmarking; (iv) and EBAs work on feasibility study on integrated reporting and cost of compliance.

7. On EBAs activity regarding Covid-19, the EBA Chair informed the BSG members that the guidelines on general moratoria were re-activated and that the expiration date was extended from 30 Sept 2020 to 31 March 2021. He emphasized that banks should continue doing a proper risk assessment of the moratoria to manage the second wave of the crisis. The Chair

expressed the hope that NCAs will engage with national banks and that they will keep distributions lower than the level prior to the crisis.

8. Furthermore, the EBA Chair elaborated on some actions taken by EBA following the departure of the former EBA executive director in response to an ombudsman enquiry and the positive response from the Ombudsman in her final report[1].

9. One BSG member questioned whether the investigation by the ombudsman was public. The EBA Chair responded that it is indeed public and is published on the EBA website.

10. Another BSG member requested the EBA timelines of publication of several planned EBA reports: (i) the final report on the RTS on Own Funds and eligible liabilities; (ii) the report on the Cost of compliance and; (iii) the report on feasibility study on integrated reporting.

11. Then, the BSG chair gave an update on the BSG work done so far. She stressed that the BSG tries to align as much as possible with the EBA work plan and that the BSG working groups are in touch with the relevant EBA teams.

12. The BSG Chair gave an overview on the established nine BSG working groups and their coordinators, followed by a short presentation of each coordinator on its working group.

13. The BSG Chair explained that the different working groups may organize some workshops along the coming years and that she appreciates the logistic support the EBA is willing to allocate to this.

14. The BSG Chair informed the BSG members about the approved BSG logo and templates.

Agenda item 3: EBA update on risks and vulnerabilities in the EU (B-Point) including presenting the thematic note on moratoria and guarantees

15. The EBA head of Unit of Risk Analysis and Stress Testing (RAST) gave a presentation on risks and vulnerabilities in the EU banking sector. Hereby he focused on the main findings from the two most recent reports on the use of moratoria and public guarantee schemes (PGS) and EBA's annual Risk Assessment Report (RAR).

16. The key messages from the EBA's annual Risk Assessment Report are the following:

[1] Recommendation of the European Ombudsman in case 2168/2019/KR on how the European Banking Authority handled the move of its former Executive Director to become CEO of a financial industry lobby | Recommendation | European Ombudsman (europa.eu)

- The new wave of COVID-19 infections is increasing uncertainty. A continued coordinated fiscal, monetary and regulatory response is essential to minimise the impact of COVID-19 on the real economy.

- Banks need to keep supporting the real economy. Banks should avoid restricting lending to viable borrowers to prevent the failure of NFCs due to cash flow shortfalls that might trigger further defaults and banks' losses. At the same time, banks should increasingly pay attention to ESG risks of their counterparties.

- Banks should brace themselves for a deterioration in asset quality. Banks should engage, as soon as possible, with struggling borrowers in order to find solutions through forbearance or similar measures.

- Although central bank support has dissipated short-term liquidity concerns, and debt spreads have returned to pre-COVID levels, a lot of uncertainty remains. Banks should take advantage of favourable market conditions to advance in their MREL build-up.

- COVID-19 has aggravated the need for cost reduction measures. COVID-19 might be the catalyst for many clients to become digital customers. Banks might opt for M&A deals to exploit potential cost synergies.

- Banks will need to make further progress in adapting their systems to a challenging technological environment and increasing AML/CFT risks. During the pandemic, cybercrime and phishing attacks have accelerated in parallel with digitalisation and the usage of information and communication technology. Furthermore, banks' preparedness for the replacements of benchmark rates remains a key risk.

17. The EBA head of RAST further provided the BSG members with an update of key metrics based on Q3 preliminary supervisory data which confirms some of the key points of the RAR and provide an update as regards the use of moratoria and PGS. The main highlights are that capital ratios increased further; total assets remained stable; loans backed by public guarantees increased (to almost 2% of banks' total loans); loans under moratoria are still significant (despite the expiration of some moratoria); average NPL ratio slightly decreased helped by a slight increase in loans and advances; and a further increase in provisions for performing loans.

18. Some BSG member noticed that PGS across Member States are different and therefore their use implies different outcome in banks' capital consumption. The EBA head of RAST confirmed the different use of PGS and moratoria within the Member States. He suggested that the BSG could help on offering a full picture of the use and differences in the PGS within the Member States by providing the EBA some input.

19. The EBA head of RAST acknowledged that overlays on the internal credit models have been used due to COVID-19 and stressed that it is important that banks recognize their losses timely and accurately.

20. One BSG member raised a few questions on the accounting side of PGSs provided in the Member States. According to him, differences in the use of PGS between MSs should be reflected in the accounting and regulatory treatment. He asked for clear accounting rules, e.g.

rules on having loans provided under a PGS on the balance sheets of banks (>80% of these loans should appear on the banks B/S). One BSG member thinks that giving the possibility to banks, even on a very limited basis, to distribute dividends in the current situation could have some unintended consequences. According to him, it could be seen that those banks that are not allowed to pay dividends are "weaker" which could result in customers feeling uncomfortable and losing confidence, pulling out deposits endangering the liquidity of such banks. He thinks it would have been more efficient, from a prudential point of view, to disallow all banks to distribute dividends in this environment.

21. The BSG vice Chair and Chair asked the EBA for another update at the next BSG meeting.

Agenda item 4: Call for advice on taxonomy aligned disclosures and Pilar 3 ITS on ESG disclosures (B-Point)

22. The EBA policy expert referred to Article 434a of the CRR which mandates the EBA to develop draft implementing technical standards (ITS) specifying disclosure requirements. In September 2020, the Commission sent a call for advice (CfA) to the three ESAs on key performance indicators (KPIs) and methodologies for the implementation of these disclosures.

23. The policy expert explained that the EBA discussion note specifies the scope of the ESG-related disclosure requirements included in both regulations. The note also elaborates on the qualitative information that institutions should disclose both under Article 449a CRR and under Article 8 of the Taxonomy Regulation. Furthermore, the EBA is also working on the KPIs and methodology relevant for investment firms, which will be also part of the response to the CfA and will be available in the package to be presented to the BoS in February 2021.

24. One BSG member asked whether the EBA is coordinating with the multiple initiatives going on at international and EU level on ESG disclosures and sustainability reporting.

    The EBA policy expert responded that the EBA is aware that many initiatives are going on and that there is a need for coordination. She confirmed that the EBA is coordinating its work with ESMA and EIOPA and that outside the EU, the EBA is liaising with the IFRS Foundation. She explained that a letter has been signed by the Chairs of the three ESAs to the Foundation regarding their consultation on sustainability reporting, showing support for the definition of global sustainability reporting standards, that should build on existing initiatives, notably those of the EU.

25. Another BSG member shared with the BSG that on the industry-side the EBA proposal for bilateral engagement with clients is very welcome (also from ECB side) and that the information given to the market is very valuable.

The EBA policy expert responded that the EBA recognizes the big challenges banks will face when collecting info from SMEs and retail counterparties, as they are not subject to disclosure obligations under the NFRD or Article 8 of Taxonomy Regulation. For this reason, bilateral engagement between banks and their counterparties is particularly important in the case of exposures towards SMEs and retail, with an extended transitional period for the stock of loans in these cases.

26. One BSG member raised the point that the Green Asset Ratio (GAR) will be by construction very low, as it will only capture the exposures to clients already aligned with the Paris Accord. Her suggestion is to also develop a GAR which would include exposures to corporates who are on track to meet the Paris accord (and the taxonomy) over time.

    The EBA policy expert responded that information on the GAR is important in the context of Pillar 3 information to show mitigating actions put in place by institutions and how they are helping their counterparties in the transition towards sustainability and adaptation process. She explained that this is why the EBA is proposing that, in addition to the information on the ratio of green assets that are taxonomy aligned, they should also show other actions and exposures that aim at mitigating climate change risks.

27. One BSG members commented that the transitional period until June 2024 for SMEs and retail is very far away and questioned why the transition period is that long. He asked the EBA what can be done in 3,5 years in terms of data gathering that cannot be done in 2 years and what EBA's considerations are for ending the transition period only in 2024 and not earlier.

    The EBA policy expert responded that the transitional period for SMEs and retail until June 2024 applies only to the stock of loans. She explained that the EBA understands that for new loans the relevant information should be corrected already in the loan origination process and that there is not a need for a transitional period, for the stock of loans. The deadline is set in line with the EBA Loan Origination and Monitoring Guidelines, as they envisage a transition until June 2024 for banks to collect all necessary data, through bilateral engagement with counterparties, for the loan monitoring process.

28. Another BSG member remarked that there are sectors which are not included in the taxonomy and questioned how banks will proceed ESG analysis for these sectors which are not yet considered.

    The EBA policy expert responded that the EBA is aware of the challenges in those aspects not covered by the taxonomy. The EBA will in these cases, for Pillar 3 disclosures, ask for disclosure of combined information in terms of exposures towards sectors. In addition, the EBA will include some policy recommendations to the Commission in the response to the CfA, like the convenience that the taxonomy regulation is extended to neutral and harmful activities.

29. One BSG member asked whether this entails that Swedish banks have to remove assets from EU green taxonomy compliant loans.

The EBA policy expert responded that the EBA acknowledges that the meaning of energy labels differ across Europe, also because of different weather conditions in different countries. The definition of EPC labels and taxonomy criteria regarding energy efficiency of buildings is beyond the EBA mandates. In its products, the EBA will cross refer to the taxonomy criteria, and in order to ensure comparability of data, the EBA will request that institutions should disclose in their Pilar 3 reports information on classification of real estate assets by energy label and on the meaning of the labels in the jurisdictions where banks operate.

Agenda item 5: EBA presentation on stress test methodology (B-point)

30. The EBA head of Unit of Risk Analysis and Stress Testing (RAST) gave an update on the stress test methodology. He clarified that the 2021 stress test exercise will maintain the same features of the 2020 stress test exercise. Nevertheless, the methodology was amended to incorporate changes in the regulation and to enhance some methodological features, in particular for credit risk and non-interest income.

    He explained that the ESRB was working on the adverse scenario for the 2021 EU-wide stress test. He informed the BSG members that the stress test, including the scenario, will be launched at the end of January 2021.

    The FAQ process will allow banks to ask questions on any unclear aspects of the methodology or templates. The results of the stress test will be published at the end of July 2021.

31. On the long term view, he provided a summary of the main comments received from the public consultation on the future of the stress test and explained that the work will continue in 2021 to improve the realism and efficiency of the exercise, to improve the information value of the results and to investigate further the role of top-down elements.

32. One BSG member emphasized that the role of the top-down approach is very important and referred to the ~~BSG~~ European Court of Auditors' recommendations ~~provided earlier~~.

33. Another BSG member commented on abandoning the two-leg approach and raised the point that, when it comes to credit losses, the top-down approach may become very difficult.

Agenda Item 6: EBAs final version of the Basel III CfA update (B-point)

34. The Chair of EBA introduced the main developments on the Basel III CfA to the BSG. On 4 May 2018 the Commission sought technical advice from the EBA on the impact of the Basel III reforms on the EU banking sector and the wider EU economy. The EBA answered to this Call

for Advice in August and December 2019. In 2020, the EBA delivered additional work on assessing the impact at the individual entity (solo) level. Due to the current Covid-19 situation, the preparation of the Legislative Proposals has been delayed. On the 21 of August 2020, the Commission requested the EBA to update the impact figures from its previous advice on the various elements of the final Basel III reforms package.

35. The Chair informed the BSG that the latest Commission request included two overarching conditions: first, no new data collection was to be carried out for this update but the EBA would use the latest data from its regular data collection exercises. In practice, these data amount mostly to the Basel QIS data from December 2019 and the COREP data from June 2020. Second, the policy recommendations included in the 2019 reports were not to be revisited. The exercise therefore amounts to a technical update, with the additional feature that the potential interaction of the COVID-19 crisis with the implementation of the final Basel III rules should also be explored.

36. The Head of the Economic Analysis and Statistics unit explained the two implementation scenarios that were followed. The first scenario (called “Basel III”), corresponds to the Basel III central scenario in the August 2019 and December 2019 CfA reports and is in line with the EBA policy recommendations as it aims to update previously estimate impact

37. The second scenario (called “EU-specific") considers additional features requested by the European Commission in its Call for Advice: the application of SME supporting factors on top of the Basel SME preferential risk weight treatment, maintaining EU CVA exemptions, setting ILM=1. In addition, two Covid-19 relief measures are considered (change in prudential treatment of software, change in P2R composition)

38. The main findings were i) MRC increase by 18.5% in Basel III scenario, and by 13.1% in EU specific scenario, and ii) TC shortfall of EUR 52.2 bn in the Basel III scenario and EUR 33.0 bn in EU specific scenario – most of it in large banks

39. The Head of the Economic Analysis and Statistics unit introduced the BSG to the impact of the COVID-19 pandemic on the Basel III reforms and stressed the limitations of the analyses performed.

40. Following the presentation one BSG commented that the Dutch and Nordic banks are outliers in the impact study, partly due to the low risk weight of their assets, and asked EBA whether there are concerns that the Output Floor will become the main driver for Nordic and Dutch banks, thereby losing risk sensitivity. The Head of the Economic Analysis and Statistics replied that this question touches upon policy recommendations that will be kept in place. He noted that it’s good to keep in mind that the main philosophy of the Basel III reforms is to reduce the variety in IRB approaches.

41. Another BSG member noted that lots of NCAs lowered capital requirements because of pandemic. The question arose how this will impact the different business models. In other words, how much of the difference in capital shortfalls between this study and the 2019 one

is attributable to lowered capital requirements because of relief measures due to COVID? The Head of the Economic Analysis and Statistics unit explained that the lower requirement numbers are considered in the COVID analyses, but not in this analyses that is based on 2019 data.

42. Another BSG members noted that small banks are underrepresented in the study and reminded the EBA that it would be important to keep them in focus. Even with the SME supporting factor, there still is an increase in RWA of the SME portfolio for SA banks so the BSG member questioned what the basis would be for the calculation of short fall.

43. One BSG member commented that the shortfalls are once again concentrated on "too big to fail" banks and should be compared with the capital "saved" by retaining earnings not paid in dividends in 2020. Furthermore, it's less costly for shareholders not to receive dividends than the dilution of equity issues in distressed financial markets.

Agenda Item 7: EBA presentation on transparency exercise (B-point)

44. The head of the Economic Analysis and Statistics unit presented the characteristics of the 2020 EBA EU-wide Transparency exercises, focusing on the key facts and results. He explained the BSG that from 2013 the EBA provides market participants with information on banks as well as with tools for exploiting it and that this is an integral part of EBA’s responsibility of monitoring risks and vulnerabilities and preserving financial stability in the Single Market.

45. The head of the Economic Analysis and Statistics unit gave the BSG an update on the main developments with the EUCLID project and shortly introduced the EBA’s Data Strategy.

46. One BSG member acknowledged the use of the transparency exercise and suggested to launch the transparency exercise more regularly. The head of the Economic Analysis and Statistics unit noted that there are no initiatives to increase the frequency as this would cost resources and would require the EBA to request further consent from banks to publish the data.

47. Another BSG member noted that the tool can't be used by all stakeholders as there is still a huge gap in financial education and that this could be the next challenge for EBA. The Chair of EBA underlined the current EBA mandate in terms of financial education and reminded the BSG that the EBA organized a virtual conference on financial education in September 2020 that was very well attended.

48. Another BSG member noted that the inclusion of smaller institutions would be very useful as looking only at larger banks could be misleading.

Agenda Item 8: BSG presentation on securitisation and risk transfer report (B-point)

49. A sub-group of WG A1 on Capital and Liquidity of the BSG gave a presentation on significant risk transfers (SRT) in securitization transactions. The presentation focused inter alia on the current legislation for SRT, the current objectives and deliverables in the EBA Report on SRT and some structural features. Furthermore, the presentation focused on the two risk-based ratios and the harmonization of approaches between different NCAs. Finally, the presentation briefly looked at the next steps to be taken on SRT.

50. One BSG member asked EBA to provide more insight in the pricing mechanisms for NPLs. Another BSG member commented on the implications of de-recognitions for the accounting part and suggested he could provide a short presentation on this if the BSG would wish so.

51. One BSG member supported a degree of national discretion and saw merit in introducing new tests as suggested by EBA, as long as they do not restrict future originations. In addition, the BSG member noted that the first assessment period of 3 months cannot really be considered a fast track.

52. One BSG member questioned whether EBA foresees a new Quantitative Impact assessment as desirable and referred to the work of the European Council. The EBA Policy expert responded that a quantitative impact assessment was not considered for the purposes of the Report. However, the new tests were checked with some illustrative transactions. He reminded the BSG that it is up to the Commission to consider if it is necessary or not in order to adopt the delegated act.

53. One BSG member expressed concerns regarding the principle based approach which could lead to different interpretations through different jurisdictions. The EBA Policy expert noted that the underlying principle in the CRR is that capital requirements should cover the unexpected loss. Following this principle, the PBA test is a precise formula, based on a methodology explained in the Report for the allocation of the unexpected loss to tranches, which gives little room to interpretation.

54. One BSG member commented that the discussion focuses largely on balance sheet securitisations, while synthetic securitisations are quite different from true sale securitisation. In the view of this BSG member more transparency was needed on the market size of synthetic securitisations as well as on the main originators of these kind of securitisations. Lastly, he reminded the BSG that the NPL discussion is way broader then loan securitisations alone.

Agenda Item 9: AOB

55. EBA confirmed that the next BSG meeting will take place on 9 February 2021.

List of participants:

Credit institutions			
Christian	König	Association of private Bausparkassen	Germany
Julia	Kriz	Raiffeisen Bank International AG	Austria
Eduardo	Avila Zaragoza	BBVA Group	Spain
Johanna	Orth	Swedbank	Sweden
Véronique	Ormezzano	BNP Paribas	France
Sébastien	De Brouwer	European Banking Federation	Belgium
Erik	De Gunst	ABN AMRO Bank	Netherlands
Søren	Holm	Nykredit Realkredit	Denmark
Lars	Trunin	TransferWise	Estonia
Elie	Beyrouthy	European Payment Institutions Federation	Belgium
Johanna	Lybeck Lilja	Nordea Bank	Sweden
Employees			
Leonhard	Regneri	Input Consulting GmbH	Italy
Andrea	Sita	Uil Unione Nazionale Lavoratori	Italy
Consumers			
Patricia	Suarez Ramirez	Asufin	Spain
Jennifer	Long	International Monetary Fund	Ireland
Monica	Calu	Asociata Consumers United	Romania
Tomas	Kybartas	The Alliance of Lithuanian consumer organisations	Lithuania
Vinay	Pranjivan	Associação Portuguesa para e Defesa do Consumidor	Portugal
Martin	Schmalzried	Confederation of Family Organisations in the EU	Czech Republic
Christian	Stiefmueller	Finance Watch	Austria
Users of Banking Services			
Christophe	Nijdam	Proxinvest	France
Rens	Van Tilburg	Sustainable Finance Lab	Netherlands
Lyubomir	Karimansky	Independent Consultant	Bulgaria
Representatives of SMEs			
Constantinos	Avgoustou	Founder and non- executive director of several enterprises	Cyprus
Academics			
Rym	Ayadi	City University of London and CASS Business School	Tunesia
Edgar	Prof. Dr. Löw	Frankfurt School of Finance and Management	Germany
Monika	Marcinkowska	University of Lodz	Poland
Concetta	Brescia Morra	University of Roma	Italy

EBA

José Manuel	Campa	EBA Chair
Philippe	Allard	EBA head of Policy Coordination
Jonathan	Overett Somnier	EBA head of Legal Services
Mario	Quagliariello	EBA director of Economic Analysis and Statistics
Isabelle	Vaillant	EBA director Prudential Regulation and Supervisory Policy
Lars	Overby	EBA head of risk-based metrics
Angel	Monzon	EBA head of Risk Analysis and Stress testing
Sebastien	Frappa	EBA policy expert RAST
Olli	Castren	EBA head of Economic Analysis and Impact Assessment (EAIA)
Marina	Lopez Villarroel	EBA policy expert EAIA
Pilar	Gutierrez	EBA policy expert Reporting, loans, Management and Transparency
Pablo	Sinausia Rodriguez	EBA policy expert banking markets, innovation and products
Tijmen	Swank	EBA policy coordinator
Ine	Vekeman	EBA policy coordinator