



EBA BS BSG 2022 030

Banking Stakeholder Group

20 October 2022

Location: EBA Premises - Paris

Banking Stakeholder Group 20 October 2022 – Minutes

Agenda item 1: Welcome and approval of the agenda

1. The Chairperson asked the BSG members whether there were any comments on the draft agenda. There were no comments on the agenda.
2. The Chairperson asked the BSG members to approve the minutes of the 13 July meeting. The minutes have been approved and will be published.

Conclusion

3. The BSG approved the minutes and the agenda of the meeting.

Agenda item 2: BSG update on the latest developments

4. The Chairperson underlined that a general update on the latest work of the BSG was presented at the 19 October Joint BoS-BSG meeting.
 5. She further explained that under the steer of the BSG coordinators of the work on Supervision, Governance, Accounting, Reporting and Disclosure Working Groups, the BSG is preparing the ground for further work on Sustainable Finance, with the goal of setting up a seminar with EBA staff and external speakers representing EU institutions and the industry. She explained that this seminar will be comprised of a series of eight short sessions focussed on strategic and political goals for sustainable finance, risk paradigm (a methodological session), transition plans and business models of financial institutions, ESG disclosures, supervisory expectations and guidelines, prudential and regulatory treatment, social issues and consumer protection perspective on sustainability. These seminars should be the basis of a BSG report on Sustainable Finance. She suggested that for each session there would be a designated coordinator from the BSG side and that the seminars should be organised every second or third week virtually, starting in February. The coordinators were invited to suggest keynote speakers and members for panels to attend these seminars.
-

6. The Head of the Governance and External Affairs (GEA) Unit underlined that such ambitious initiative was welcome but that it should take into account the resources that EBA staff can provide to support such events and that a priority should be given to the tasks allocated to the BSG in the EBA founding Regulation and that the output of the BSG work is expected to be presented in the regular meetings organised by the EBA.
7. BSG members acknowledged the comment of the EBA and discussed how to organise those seminars on the most efficient way. They concluded that the Sustainable Finance Seminar should be structured in 8 sessions and that the whole planning would be re-assessed after the first two panels take place in February 2023.
8. The planning of 2023 BSG meetings was communicated to the members, with the following dates: 9 February BSG, 20-21 April Joint BoS-BSG, 6 July BSG, 18-19 October Joint BoS-BSG and 14 December BSG.

Agenda item 3: EBA update on general developments

9. The EBA Chairperson highlighted some of the major developments since the 13 July meeting.
10. He mentioned that the three ESAs issued their Autumn 2022 joint risk report, which is published twice per year. This report highlights that the deteriorating economic outlook, high inflation and rising energy prices have increased vulnerabilities across the financial sectors. It also stresses that the post-pandemic economic recovery in Europe has dwindled as a result of the Russian invasion of Ukraine.
11. He also mentioned that the EBA published its first mandatory Basel III Monitoring Report which assesses the impact that Basel III full implementation will have on EU banks in 2028. According to this assessment, which uses a significantly larger sample than in previous years and applies the same methodology as the Basel Committee on Banking Supervision (BCBS), the full Basel III implementation would result in an average increase of 15.0% of the current Tier 1 minimum required capital of EU banks.
12. The EBA Chairperson noted that on 23 September, the EBA launched its annual EU-wide transparency exercise, as part of its efforts to monitor risks and vulnerabilities and to reinforce market discipline. As in the past, the exercise is exclusively based on supervisory reporting data, which will keep the burden for the banks to a minimum.
13. He also mentioned that at the end of July, the EBA published its 2023 EU-wide stress test draft methodology, templates and template guidance to be discussed with the industry. The methodology covers all risk areas and builds on the one prepared for the 2021 EU wide stress test. As a new feature, the projections on net fee and commission income (NFCI) will be based on a top-down model. This is a first step of revising the EU-wide stress test framework towards a hybrid (bottom-up and top-down) approach.

14. The EBA Chairperson stressed that the EBA has become the first European agency in France to be registered for its environmental performance under the European Eco-Management and Audit Scheme (EMAS). The registration was issued by the French Ministry for the Ecological Transition for a duration of three years. The scope of EMAS covers all the EBA's operational and core business activities and as part of its environmental efforts, the EBA procures electricity from renewable energy sources.
15. Some BSG members asked the EBA Chairperson for an update on the developments of the EU securitisation market. They underlined that with regards to synthetic securitisations, there is a concern from the industry that a new regulatory framework on Exposure Value of Synthetic Excess Spread enters into force and affect current transactions that are being structured. The suggested lifetime approaches seem to conflict with existing approaches under Basel, CRR or IFRS 9. It can result in a loss of capital relief for European banks in a difficult environment. What is more, no grandfathering period is provided for, which leads to legal uncertainty when currently structuring securitisations. The EBA Chairperson reminded that as part of the CMU action plan, the Commission should submit a report and where appropriate, submit a legislative proposal jointly, on the application of selected provisions in Chapter 5 of the CRR in the light of developments in securitisation markets. He explained that the ESAs are currently finalising supporting work for this mandate in the form of answers to a call for advice from the Commission that should be published before the end of the year.
16. Another member asked about the figures from the Basel monitoring report, which shows increased risk weighted assets (RWA) that do not materialise into a capital shortfall. The EBA Chair explained that this increase in RWA is particular to large institutions having buffers which are meant to absorb this increase.
17. The BSG Chairperson asked about the use of guarantees in a post COVID-19 environment and the state of play on moratoria, to which the EBA Chair explained that the EBA is still ensuring a regular monitoring and regular reporting on the COVID related guarantees. The moratoria and public guarantees provided have declined drastically and are currently at the level of 370 billion EUR of public guarantee schemes (PGS loans) and active moratoria at 15 billion EUR in Q2. He also noted that there are a number of initiatives in member countries to establish new moratoria mostly related to alleviate the impact of interest rate increases.

Agenda item 4: Mid-term election of the BSG Chair and Vice-Chair (B-Point)

18. The Head of the GEA unit reminded that at the 27 October 2020 meeting of the BSG, BSG members elected Rym Ayadi as Chair and Eduardo Avila Zaragoza as vice-chair for a period of two years, that is until 26 October 2022. He also reminded that at the 13 July 2022 meeting of the BSG, the EBA Chair launched a call for applications for the positions of BSG Chair and Vice-Chair for which all BSG members were invited to express their interest before the 31 August

2022. These new mandates will start on 27 October 2022 and end on 30 June 2024, with the end of this Banking Stakeholder Group mandate.

19. Since the only applications received had been the ones of Rym Ayadi for BSG Chair and Eduardo Avila Zaragoza for BSG Vice-Chair, it was proposed to elect the two of them for the positions they have applied for.
20. BSG members approved the proposal and congratulated the Chair and Vice-chair on their achievements so far. Both committed to continue following the commitments and objectives set in agreement with the Group.

Agenda Item 5: Update on risks and vulnerabilities in the EU (B-Point)

21. The EBA staff from the Risk Analysis and Stress testing Unit presented the EBA's assessment of current risks and vulnerabilities based on supervisory reporting data, the latest results of the risk assessment questionnaire (RAQ) and further market data. He underlined that many parts of the topics covered in the presentation will similarly be covered in the upcoming EBA Risk Assessment Report (RAR). The newly introduced bank taxes and similar measures, as a topic regularly discussed in recent months were also detailed.
22. Some BSG members asked further details on the evolution of NPLs and requested more information regarding the stress test, mainly if exposures on the energy sector will be referenced, as there is a significant concentration on the number of institutions.
23. EBA staff replied that the overall NPL ratio from Q1 to Q2 was declining and that the coverage ratio (the accumulating provisions over the total stage 2) is also declining, due to the sale of older stage 2 and stage 3 loans, which were on higher provisions. On the concentration on risk on CCPs, it is a positive consequence of the regulation, that encourage the transfer of derivative activities from OTC markets into CCPs. The transfer of derivatives activity into the CCPs had the intention to reduce the bilateral counterparty risk, in contrast now this counterparty risk is now concentrated in the CCP and it is managed through margin calls. The numbers in the presentation show that the commodity derivatives market is small compared to the broader derivatives market. Regarding the support that banks might provide to SMEs and households in difficulty, EBA staff added that in the last few months different types of moratoria are being discussed in member states.
24. The EBA Chair said that the current situation is putting a lot of pressure on all sectors, factoring inflation, companies are facing supply shortages and the questions are focused on potential government actions to alleviate the negative impact. The current situation is very different from COVID. Regarding the grant of loan moratoria, it is not the answer to the current situation as the concern is not about lack of liquidity but about appropriate risk adjustment. A BSG member referenced to the increasing cases margin calls on derivatives that have natural gas

as an underlying asset. Even if the company has diversification with renewable on nuclear assets, 100% of the margin call related exposure would be on gas.

Agenda Item 6: Finalisation of "Repair of Internal Models" (B-Point)

25. Experts from Prudential Regulation and Supervisory Policy Unit (PRSP) presented the IRB roadmap, which is a 5-year project launched in 2015, based on the discussion paper on the future of the IRB Approach, with the last product - GL on CRM for A-IRB - published in 2020. In contrast to Basel 'top down' approach (e.g. high-level constraints such as input or output floors), the EBA followed a 'bottom-up' approach, covering all aspects of modelling, from the key definitions (e.g. definition of default) to possible modelling approaches.
26. The EBA has monitored the implementation, both from a theoretical point of view and from an empirical point of view, monitoring of the variability via the benchmarking exercise. The next phase will come with the entry into force of Basel 3. The EBA will have to review some technical standards and further clarify elements raised by supervisors.
27. The BSG Vice-Chair and several BSG members conveyed that complying with the EBA Guidelines can be very demanding, mentioning especially the changes to the Guidelines on the calculation of LGD, which involves many resources and not complying may lead to a 'margin of conservatism' being applied by the SSM. The idea of the repair of internal models is largely supported by the members, however the operational challenges need to be addressed. Also, (especially in the Nordics) the new IRB models have not started to take effect yet. Each model is approved individually, which means that unless supervisors benchmark the models against each other from different banks, it does not immediately lead to the elimination of all variability.
28. The EBA Executive Director agreed with the challenges raised by the BSG members. He noted that the issues raised are more a supervisory concern than in the remit of the EBA and that the appropriate use of internal models is at the core of the relationship between the bank and the supervisor.
29. One BSG member asked whether, with all the available empirical research to assess the fitness for purpose for these models, there is an estimate of the fraction of unexplained variability. EBA staff replied that on benchmarking, the EBA publishes a report every year which includes evaluations on the unexplained variability (which is between 25-50 % depending low/high default portfolio). Even though there is some variability, there aren't concerns of undercapitalisation of banks. Indeed, there may be some economic losses with the LGD and it is in this metric where most of the variability is observed.

Agenda Item 7: EBA internal assessment of serious incidents reported under PSD2 (B Point)

30. EBA staff from the Conducts, Payments and Consumers Unit (COPAC) presented to the BSG the state of play of their preliminary analysis of the incident reports received since January 2022, which is carried out jointly with the ECB.
31. Based on the assessment of the incident reports received in 2018 and 2019, the EBA decided to review the Guidelines to streamline the incident reporting process for reporting entities, to make the reporting more meaningful, and also to better capture cyber events. The revised EBA Guidelines (EBA/GL/2021/03) are applicable since January 2022. As part of the assessment, also the pros and cons of a potential partial public dissemination of the findings and possible ways to do so will be examined.
32. Several BSG members requested the EBA staff to possibly elaborate regarding *the impact of incidents by security* property and if there could be a qualitative assessment made for the impact on customers, like confidentiality data issues or even potentially even worse, as reduced availability for several hours. As there isn't data from all member states (4 Member States did not report at all), there appears to be the issue of underreporting. This raises the question of the risk profile in the countries where Competent Authorities did not collect the data.
33. Along the lines of the transition to DORA, another BSG member asked whether incident reporting is expected to change in terms of procedure and data. Under DORA there is a significant regime that will focus on the third-party service providers. He also asks if there is any insight or data at this stage that differentiates between inhouse systems and algorithms, which can be used as lessons that can be used for DORA (potentially use outsourcing). Another question was whether the EBA can enforce compliant reporting and if measures are taken against non-compliant Member States.
34. The EBA expert replied that most of the incident reporting available impact availability and not confidentiality. In case of incidents that may impact the financial interests of users, these incidents are also communicated to the users themselves. Regarding the Member States that are currently not reporting, the different reporting base of each country has to be taken into account. The EBA is aware of the issue and is seeking solutions to adjust the reporting framework.
35. The Head of the COPAC Unit replied regarding the potential underreporting, that a number of tools are available to the EBA with a wide range of spectrum (like the breach of Union law investigation), to encourage reporting by CAs. The issue, however, does not mainly arise from the non-reporting jurisdictions, but also from the quality of the reported data as well, for instance there are some large jurisdictions for which the reported numbers appear much to small given the large number of entities and operators in their markets. This presentation

contains a preliminary analysis, it's also the first time it was done and there is still work to be done.

Agenda item 8: New EBA mandate on retail risk indicators (RRIs) (B-Point)

36. The Head of the COPAC Unit presented the mandate that was conferred on the EBA through the revision of the EBA Regulation in January 2020, on retail risk indicators. The EBA received the new mandate on RRIs in conjunction with other additional consumer protection mandates that the EBA received at that point in time (mystery shopping, thematic reviews, scope extension to the Consumer Credit Directive, etc.).
37. The EBA staff explained the methodology used by the EBA to arrive at these indicators. These sets of indicators are the first iteration, to be published early next year. EBA staff is approaching the BSG prior to finalisation to receive input that might be used to finetune the indicators. If certain suggestions are too difficult to implement for the 2023Q1 iteration of the risk indicators, they may suitably be incorporated in the iterations in future years.
38. Two BSG members reacted to the presentation and asked about the classification of complaints, if this presents a problem toward data being reported differently and suggested that it would be useful to know if there is a rise in complaints for different products (mortgages, consumer loans, credit cards, consumer accounts etc.), not only a general denominator of rise in complaints. Another indicator worth following is the average APR change per year shows cost of credit, whether there is a change and a shift in a specific market that may indicate there is a problem coming from overleveraging. Indicators on the prevalence of overdraft and overrunning were also suggested to be looked at.
39. The EBA staff replied they took note of the suggested indicators and of the classification of complaints whilst stressing that the way they are currently reported in the EU is not harmonised at the moment. He also noted that the change of average API, DSDI for consumer loans, overdraft and overrun are being looked at, but there is a concern about data availability.
40. This topic may be again brought for discussion in a future BSG meeting and the publication of the report is scheduled for February or March of next year.

Participants of the Banking Stakeholder Group meeting 13 July 2022¹

Annex 1: Attendance list, by constituency

Attending

Sebastian Martin	Stodulka Schmalzried	Erste Group Bank AG COFACE-Families Europe Frankfurt School of Finance and Management	Austria Belgium Germany
Edgar Leonhard	Loew Regneri	Input Consulting gGmbH	Germany
Concetta	Brescia Morra	University Roma Tre Alliance of Lithuanian consumer organisations	Italy Lithuania
Tomas Monika Maria	Kybartas Marcinkowska Ruiz de Velasco	University of Lodz Abanca	Poland Portugal
Alin	Iacob	AURSF (Association of Romanian Financial Services Users) Asociatia Consumers	Romania
Monica Eduardo Patricia Jennifer	Calu Avila Zaragoza Suarez Ramirez Long	United/Consumatorii Uniti BBVA ASUFIN	Romania Spain Spain
Vinay Véronique Julia	Pranjivan Ormezzano Strau	International Monetary Fund Associação Portuguesa para a Defesa do Consumidor BNP Paribas	Ireland Portugal France
Christian	König	Raiffeisen bank International AG Association of private Bausparkassen	Austria Germany
Rym Rens Christian Johanna Sébastien	Ayadi Van Tilburg Stiefmueller Orth De Brouwer	City University of London, Business School and CEPS Sustainable Finance Lab Finance Watch AISBL Swedbank	Belgium Nederlands Austria Sweden
Andrea	Sità	European Banking Federation UILCA Italian Labor Union - credit and insurance sector	Belgium Italy

EBA

Chair
Executive Director

Jose Manuel Campa
Francois-Louis Michaud

Heads of Unit

Philippe Allard;
Dirk Haubrich;

EBA experts

Mihnea Sarca
Juan Garcia
Alessandro Campi
Guillaume Olivier

For the Banking Stakeholder Group

Done at Paris on 15 November 2022

José Manuel Campa

EBA Chair