

Joint Board of Supervisors/ Banking Stakeholder Group Meeting - Minutes

Date 25 September 2012 / Time 09:00 to 12:30

Location: EBA

Agenda item 1: Opening and approval of the agenda

The EBA Chairperson and the BSG Chair welcomed the members of the BSG and the Board of Supervisors to the EBA's offices and the agenda for the meeting was approved.

The minutes of the last joint BoS/BSG Meeting led on 8 February 2012 [BSG 2012 18 ver2] were approved.

Agenda item 2: Report on the activities of the BSG

The BSG Chair and Vice Chair reported on the activities of the BSG, including its establishment of four BSG Working Groups (on Capital, Liquidity, Financial Stability and Consumer Protection) and that it had submitted opinions to EBA on some of the EBA's consultations on its regulatory agenda. The BSG views that it is working well, and seeks to provide an input into EBA's work and stands ready to continue in this aspect, making use of its different members' perspectives.

Agenda item 3: Challenges and Changes to Liquidity, Funding and Capital

Louise Lindgren, BSG Working Group on Capital Chair, presented the BSG's views on challenges and changes to Capital, citing the dependencies between the different regulations (i.e. CRD, Recovery and Resolution proposals, Structural Reforms, Solvency II). She highlighted the need to manage the dependencies and the aggregated consequences of the different forthcoming regulations, such as on bail in and when, and how, to determine the non-viability of a bank. She also raised proportionality concerns for the smaller banks, the uncertainty in timing of the CRD IV/CRR implementation,

especially in relation to the reporting of capital adequacy, and proposed the phasing in of reports such as large exposure, Leverage ratio and loss reporting.

EBA Chairperson invited the BSG's input of the interaction of CRD/CRR and Solvency II implementation, which EBA could raise at the Joint Committee Forum.

Andrea Resti, BSG Working Group on Liquidity Chair, presented the forthcoming BSG's Report on the Liquidity ratio, which is mostly focussed on the Liquidity Coverage Ratio (LCR). He emphasised both the rationale for going ahead with the introduction of a requirement and the need for a serious recalibration of the ratio, especially in defining which assets are to be considered as highly liquid. In particular, he emphasised that the rules should be flexible enough to accommodate changing market conditions affecting the liquidity of different instruments. He viewed that banks should be more transparent in their liquidity reporting and provide more liquidity data to EBA, which in turn should stand ready to share this information, anonymised, with the BSG.

Isabelle Vaillant, Director of Regulation, EBA, provided a short presentation on EBA's work. She highlighted EBA's guidance on the quantitative evidence and qualitative criteria for liquid assets, where EBA would assess the micro aspects of the impact of introducing the LCR.

Mattias Dewatripoint, EBA BoS Member presented the background on the Basel Committee's work on Liquidity standards to limit central bank reliance and introduce self-insurance. He cited the initial calibration effect of the LCR, and cited some issues under discussion such as whether the buffers were too 'narrow' and whether the 'sovereign focus' reasonable; and suggested that more work is needed on the usability of the buffers, taking into account the difference between idiosyncratic and aggregate shocks.

BoS Members raised some concerns on the concentration of liquid assets.

BSG Members expressed several concerns including investors' concern in relation to bail in such as uncertainties in the treatment of unsecured debt, lack of transparency, and conditions for applying haircuts. They also stressed that liquidity is a matter of trust and confidence, and expressed concern of potential runs on banks were there to be full disclosure; concern on diversification effects of liquid assets, especially for smaller banks were also pointed out; the impacts to employees of change on banks' business models; the wider the range of diversity of banks, the greater the financial stability, and better for consumers too.

Agenda Item 4 – The role of the EBA in a Banking Union & State of Play in EU Banking

Sony Kapoor, BSG Chairperson advised that the BSG were broadly supportive of the proposal but concerned on the details, such as the phasing in period and the total scope of the BU proposal. Recognition of EBA's role, vis a vis the integrity of the Single Market versus the Eurozone; how ECB will manage the conflicts of interest, the voting mechanics; and the role of the EBA. Further Daniel Gros, BSG Member expressed some concerns on the current proposals, such as the EBA's inability to mediate; addressing the conflict of interest between the national perspective and the European one, for instance in the incentives to resolving banks and applying haircuts to creditors, and in

reviewing Risk Weight Assets for sovereign exposures.

Matthew Elderfield, EBA Vice Chair sought pragmatism in the roll out of the Banking Union, with the scope covering the programme countries in the first instance and then systemic banks. He questioned whether the ECB should stop there or go further; and also in the timing. On ECB's supervisory coverage, he suggested it should cover all banks, as history has shown small banks can also have systemic implications. He suggested that the ECB does not need to centralise supervision from its 1st day. Moreover, the Banking Union should be operational first and then a resolution authority be established.

In relation to the ECB's decision making, he cited the need to be able to take decisions very quickly in time of crisis. Further he pointed out the culture challenge of merging so many supervisors. On the role of EBA he was concerned on the bifurcation of the split between ECB and the Single Market, and viewed the EBA should act as the guardian of the Single Market. A view shared by Martin Anderson, EBA BoS Member, who also questioned how will the Euro Zone supervision be financed; and the need to be mindful of the contingent liabilities in case of bail-outs.

Amongst the BoS the following comments were expressed: On scope some suggested smaller banks should stay with national supervisor; whereas other viewed all banks should be included in ECB's scope. Many cited it would take time for ECB to get to grips with supervision. It was questioned as how to enhance supervisors' ability to act early and take strong measures, such as stress testing. Further it was recalled that from the US Savings and Loans experience, centralised supervision is not always successful. Whoever is the supervisor performing stress testing, they need to understand capital and how the backstop will work.

Amongst BSG Members, the following comments were expressed: the crisis has demonstrated the need to place more weight on supervision rather than regulation; in the short term, the ECB will need to draw on local knowledge from NCBs/NSAs – and need supervisors to be local to the market in which the banks operate. So ECB can do the overview and the inconsistencies, but need to balance local knowledge.

Agenda item 5: Consumer Protection Priorities and Cross Cutting Themes (Across ESAs on the issue of Consumer / Investor Protection)

Robin Jarvis, BSG Consumer Working Group Chair gave a short presentation on the key issues identified by the BSG. Namely

- a. Consumer debt problems
- b. Mis-selling issues
- c. Responsible consumer lending
- d. Consumer trust

e. Analysis of consumer trends and supervisory concerns

Other suggestions of the BSG include the remuneration structure for financial services advice. The BSG Working Group Chair proposed working with EBA's Standing Committee on Consumer Protection and Financial Innovation together with EBA's Consumer Protection Unit on these issues.

Sharon Donnery, Chair of EBA's Sub Group on Consumer Protection, advised that a challenge for EBA is the differences amongst the state of play in different Member States, e.g. some have Payment Protection issues, whereas some do not. She advised that EBA's focus is on mortgages, and looking at responsible lending, and mortgage arrears management. Further EBA's trend analysis had highlighted consumer indebtedness as a key topic.

EBA Executive Director highlighted the Joint Committee's work on PRIPs, on product governance and oversight – with a view to address consumer concerns early in the design process; and on complaints handling.

Some BSG Members cited experience of consumer detriment, such as misselling some risks to some customers and on forbearance.

Agenda Item 6: Any Other Business

The BSG Chair thanked the EBA's Board of Supervisors for the openness in their dialogue and the EBA Chair thanked the BSG for their contributions.