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Minutes of the meeting of the Commission Expert Group on Banking, Payments and Insurance

Bank Regulation and Supervision

Brussels, 16 March 2018

Opening Remarks

The Chairman of the meeting welcomed members of the group and set out the agenda of the meeting which was dedicated to having a first discussion on the finalisation of the Basel III framework.

Consultation and impact assessment

The Chairman informed members on the next steps envisaged by the Commission in preparation for the implementation of the revisions to the Basel standards agreed by the Basel Committee on Banking Supervision (BCBS) in December 2017 (hereinafter referred to as "the revisions"). As a first step, the Commission would launch an exploratory consultation to seek stakeholders' initial views and input i) on the potential impact that the revisions would have on the EU banking sector as well as on the wider economy and ii) on possible practical challenges related to the implementation of those revisions. The Chairman explained that the exploratory consultation was intended to help identify possible areas of focus for DG FISMA's forthcoming Call for Advice (CfA) to the European Banking Authority (EBA). The aim was to issue the CfA ahead of the next round of the regular Basel III data collection exercise in order to combine efforts, minimise the burden for institutions and initiate a timely and proper preparation process in view of the internationally agreed implementation timeline. The Chairman also clarified that the exploratory consultation was without prejudice to additional consultations on the revisions, which should take place next year.

Most members expressed general support for implementing the revisions in the EU and the timeline proposed by the Commission concerning next steps. In this context, one member while principally supporting the prosed timeline stressed the need to take into account European specificities. A few members proposed to shorten the Commission proposed timeline for the process. Responding to one member’s question, the EBA explained that it would need approximately one year to collect and analyse the relevant data.

All members that intervened called for a rigorous impact assessment (IA) and to cover a representative sample of small and medium-sized banks in the IA. Both the Commission and the EBA stressed the importance that competent authorities inform in particular smaller institutions about the upcoming data collection exercise and to encourage them to participate in it. In this context one member requested to not only look at the impact of the revisions at the consolidated level but also to specifically assess the impact on subsidiaries of cross-border banking groups in host Member States.

Some members asked to look beyond aggregate capital shortfalls in the IA and to analyse also impacts on banks' business models as well as on their lending behaviour. Furthermore, some members wanted to assess if the revisions lead to unintended consequences of weakening risk sensitivity of the capital requirements. In addition, they asked the EBA and the Commission to analyse the potential additional administrative burden resulting from the revisions. Some members called for a proportionate implementation of the revisions for smaller and medium-sized banks whilst other members were of the view that the implementation should be the same for all EU banks. A number of members stressed the importance of full implementation of the Basel agreement.

A few members expressed their interest in the upcoming preparatory work of the Commission and suggested to be involved through e.g. a more dedicated expert group.

Standardised approach for credit risk

Most members said that they would expect the biggest impact to come from the revised treatment for residential real estate exposures. Some members questioned the use of the loan-to-value ratio as the sole risk indicator and asked to also test other indicators, such as the loan-to-income ratio or the debt-service-coverage ratio. Other members, however, did not support the idea of introducing additional indicators as the idea had already been explored and abandoned by the Basel Committee. Some members were in favour of keeping options that are already available in the Capital Requirements Regulation (CRR), notably the loan splitting approach and the possibility to use mortgage lending values. Several members expressed concerns about using the value of immovable property at origination of the loan (instead of the market value). Some members asked to assess whether the change in the valuation approach could have pro-cyclical effects.

Significant impacts were also expected by several members from the increased risk-weights (RWs) applicable to equity exposures. According to those members, more differentiation among the types of investments, as well as a clarification of unclear definitions was needed. They pointed out that uncertainty regarding the classification as 'speculative investments' could negatively impact long-term investment. One member highlighted a potential inconsistency of the revised RWs with the treatment for holdings of own funds instruments allowed under Article 49(1) of the CRR.

Some members raised concerns that the revised due diligence requirements for rated exposures could cause considerable burden, in particular for smaller banks as they would hardly have the means to challenge a rating by an external credit assessment institution.

One member asked to assess the impact on infrastructure investment and sustainable finance in view of the new requirements for specialised lending.

With regard to retail exposures, some members asked to keep the option to determine whether the portfolio was sufficiently granular according to qualitative criteria instead of using a hard-coded quantitative threshold.

Some members expressed their concerns with regard to the revised treatment for exposures to unrated corporates and asked for an assessment of possible options in this regard.

Another member was concerned about the impact of the multiplier of 1.5 for certain unhedged foreign currency exposures.

Internal ratings-based (IRB) approaches for credit risk

All members that intervened expressed their general support for the revisions to the IRB approaches.

One member asked to assess whether the revised framework could provide an incentive to move exposures to regional authorities and governments from the IRB to the standardised approach.

Another member asked to analyse whether the scope of eligible receivables should be extended to include bank loans that are posted as collateral as the revised framework could make 'pass-through loans' that promotional banks provide to relationship banks unduly expensive.

Responding to another member’s question on the interaction of the IA with the on-going IRB review by the EBA, the Commission clarified that it would coordinate with the EBA in this regard.

Credit valuation adjustment (CVA) risk

Members’ views were split on whether keeping or not the current exempted transactions for the own funds requirements for CVA risk.

Some members highlighted that the revised standardised approach for CVA risk is indirectly linked with the on-going work of the BCBS on market risk.

Other members, again, mentioned the need to assess the trade-off between simplicity and prudence when using the new simpler alternative for computing CVA risks (i.e. the basic approach), meaning that this alternative should generally result in higher capital requirements.

Operational risk

Members were split concerning the level at which the national discretion allowing supervisors to set the value of the internal loss multiplier equal to '1' for all banks in their jurisdiction should be exercised (EU or Member State level).

One Member argued that bank size might be given an excessive weight in the methodology and this should be carefully evaluated in the impact assessment.

One member expressed concerns regarding the impact that the revisions would have on the Pillar 2 requirements, arguing that much information needed for the assessment would not be available anymore under the revised Pillar 1 framework.

Output floor (OF)

While agreeing that unwarranted variability of risk-weighted assets should be addressed, several members were of the view that the OF would unduly decrease the risk-sensitivity of the framework. One member indicated that the introduction of the OF would lead to a significant increase in capital requirements for its banks. Other members, however, expressed their support for the OF as a measure that would increase comparability and help ensure a level-playing-field across institutions with very similar risk-profiles.

Some members suggested analysing how the OF would interplay with the leverage ratio and the capital buffers.

To ensure a proper estimation of the potential impact, some members stressed the need to take account of the mitigating effects the transition period for the OF would have.

Final remarks and closing of the meeting

The Chairman thanked the members for their inputs and the useful discussion and invited them to submit written comments by 30 March 2018. He confirmed that a follow-up meeting would be scheduled depending on how the work, including in particular the EBA’s assessment, would progress.

List of participants:

AT: B. Machajdik - Federal Ministry of Finance

BE: G. Van Den Eynde - National Bank of Belgium

BG: A. Ivanov - Bulgarian National Bank

CZ: M. Mastna - Ministry of Finance

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DK: K. Esben Bjørn - Danish Financial Supervisory Authority, J. Eriksen – Ministry of Industry, Busienss and Financial Affaires

EE: H. Korju-Kuul – Ministry of Fiance

ES: V. Gomis, P. Pérez Cimarra - Ministry of Economy, Industry and Competitiveness. Treasury and Financial Policy General Secretariat

FI: T. Taipale – Ministry of Finance

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HR: S. Petrinic Turkovic - Croatian National Bank, G. Mađarić – HR Perm. Rep.

HU: Zs. Haraszti, H. Olasz – HU Perm. Rep.

IE: L. Mansergh – Central Bank of Ireland, C. O'Laoide, T. Hennessy - Department of Finance

IS – L. Skarphedinsson - Ministry of Finance and Economic Affairs

LT: V. Stankevičienė - Bank of Lithuania

LU: P. Rasqué – Ministry of Finance, D. Reinard – CSSF

LV: L. Rozenbaums – Ministry of Finance, I. Utane – Financial and Capital Market Commission

MT: K. Xuereb – MFSA

NL: V. Rietvink, C.J Russcher – Ministry of Finance

NO: B. Stakkestad – Ministry of Finance

PL: H. Kostecki – Ministry of Finance

PT: C. Reis – Ministry of Finance, J.M. Serejo Neves - Banco de Portugal

RO: M. Cascaval – National Bank of Romania

SE: J. Eklund, V. Therese – Ministry of Finance

SI: D. Hudnik Drmaž – Bank of Slovenia, B. Franjga – SI Perm. Rep.

UK: T. Kenny – HM Treasury, D. Andreicut – Bank of England, O. Herrenschmidt – UK Perm. Rep.

EBA: D. Reymondon

ECB: K. Braun-Munzinger, R. Corrias

EP: D. Kolassa, R. Maier, F-R. Babinet

Commission:

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