Minutes

of the meeting of the Financial Affairs Committee
held on 5 October 2018, from 16:00 to 18:00
at Kolbe Hotel (Via di San Teodoro 48), Rome

Chairman:	Grünbichler, Andreas	Bausparkasse Wüstenrot AG
President:	Jeníček, Jan	Raiffeisen stavební spořitelna a.s
Managing Director:	König, Christian	European Federation of Building Societies
Participants:	Andel, Zdravko	Wüstenrot stambena štedionica d.d.
	Buttinger, Andreas	sBausparkasse
	Conradi, Ralf	Bundesgeschäftsstelle LBS
	Eichwede, Rainer	Bausparkasse Schwäbisch Hall AG
	Feix, Erich	Prva Stavebna Sporitelna, a.s.
	Ferencz, Iván	Fundamenta - Lakáskassza Zrt
	Forche, Carl	Raiffeisen Bausparkasse Gesellschaft m.b.H.
	Freise, Agnes	Verband der privaten Bausparkassen e.V.
	Guthmann, Axel	Bundesgeschäftsstelle LBS
	Holler, Kathrin	European Federation of Building Societies
	Imgrund, Hajo	Aachener Bausparkasse AG
	Kaschel, Rainer	Fundamenta - Lakáskassza Zrt
	Kašiar, Radomír	CSOB Building Saving Bank
	Khalife, Mahmoud	Bundesgeschäftsstelle LBS
	Kratschmann, Astrid	S-Bausparkasse
	Kreuziger, Volker	Bausparkasse Schwäbisch Hall AG
	Ketzner, Christian	Verband der privaten Bausparkassen e.V.
	Körbi, Uwe	LBS - Westdeutsche Landesbausparkasse
	Lohöfer, Norbert	LBS Landesbausparkasse Baden-Württemberg
	Marwan, David	Prva Stavebna Sporitelna, a.s.
	Martell, Christian	Raiffeisen Bausparkasse Gesellschaft m.b.H.
	Masar, Juraj	Prva Stavebna Sporitelna, a.s.
	Markvart, Jiří	Wüstenrot - stavební spořitelna a.s
	Meihsner, Alexander	Aachener Bausparkasse AG
	Molnárová, Lenka	Raiffeisen stavební spořitelna a.s.
	Negrila, Arion	BCR Banca pentru Locuinte S.A.
	Pfenning, Jonathan	European Federation of Building Societies
	Plíšek, Jiří	Stavební spořitelny České spořitelny, a.s.
	Prokopp, Josef	Alte Leipziger Bauspar AG
	Senjak, Andreas	Bausparkasse Wüstenrot AG
	Tacacsova, Lucia	Prva Stavebna Sporitelna, a.s.
	Terhaar, Thomas	Deutsche Bank Baupar AG
	Varzaru, Cristina	BCR Banca pentru Locuinte S.A.

	Zaremba, Petr	Raiffeisen stavební spořitelna a.s

Guest speakers: Dr Ben-Benedikt Hruby, LL.M., Federal Ministry of Finance (Austria), Banks and Capital Market Law Department (III/5)

Mr Angelo Peppetti, Italian Banking Association

ITEM 1: Welcome/Addition to the agenda

Professor Grünbichler welcomed the participants of the Financial Affairs Committee, explained how the meeting would proceed and asked for approval of the agenda. The agenda was approved.

ITEM 2: MREL/TLAC – Current developments/Impact on deposit-taking institutions

Professor Grünbichler presented Dr Hruby from the Austrian Federal Ministry of Finance, as first guest speaker. As negotiator of the Austrian Council Presidency, he is responsible for the resolution component of the banking package. Dr Hruby spoke on the subject "MREL/TLAC – Current developments/Impact on deposit-taking institutions". The main points of his speech were the concepts of MREL and TLAC, the banking package with a focus on the resolution component (BRRD/SRMR) and the subject of the creditor hierarchy. Dr Hruby started by explaining the fundamental mechanisms of the concepts of MREL and TLAC.

Speech: see attached presentation

Dr Hruby then dealt with the impending changes to the MREL concept resulting from the review of the BRRD. He focused on the amended MREL calibration, the resolution strategy and the moratorium tool.

He then spoke on the subject of the creditor hierarchy and referred to Article 108 of the MREL. This Article regulates the creditor hierarchy and, due to the urgency of the issue, had already been decoupled from the banking package in 2017 and dealt with under the fast-track procedure. Publication in the Official Journal took place on 27 December 2017. The time limit for transposition ran until the end of 2018. In Austria, transposition occurred in the first half of 2018. Dr Hruby was responsible for the transposition.

In the context of the MREL discussion, Professor Grünbichler referred to the importance of the resolution strategy, which has an impact on the capital to be held. In addition, only time would tell what the capital costs would be entailed for the institutions in the context of the newly created investment class in the new ranking of the credit hierarchy (lower ranking in preferential ranking).

ITEM 3: The Italian banking landscape (the country and the banks: latest trends and the market for private mortgage loans)

As second external speaker, Mr Angelo Peppetti of the Italian Banking Association spoke about current trends in the Italian banking landscape.

According to Mr Peppetti, the trend in the macroeconomic indicators is positive. Gross domestic product grew by 1.5% in 2017. Growth rates of over 1.0% were also forecasted for 2018 and 2019. Admittedly, the current political discourse on the Italian debt sustainability was giving cause for concern; however, a series of basic indicators made these concerns appear to be exaggerated. For instance, lending to private households and businesses rose by 2.6% in 2016. Furthermore, the indicators both for the stock of non-performing loans (NPLs) and also of new non-performing loans had improved. The NPL stock had diminished from 18% in 2016 to the current 13.4%. A figure of under 10% was forecasted for mid-2019, falling to less than 6% at the end of the 2019. The percentage of new loans at risk of default stands at 1.7%.

Speech: see attached presentation

Professor Grünbichler opened the question and answer session with an inquiry on the home ownership quota and the state of the discussion on the taxation of property in Italy. According to Mr Peppetti, only 20% of Italians live in rented accommodation. At the same time, the taxes on private residential property introduced by the Monti Government of the time had had a major demand-side impact. The Monti Government had significantly raised the tax burden for first and second homes. This led to a sharp fall in demand for such investments. At the same time, the market for mortgages secured by private residential property (EUR 380 billion) is considerably larger than the market for mortgage secured by commercial property (EUR 70 billion). At present, tax is due only on second homes.

Furthermore, Professor Grünbichler inquired about the ratio between mortgage loans and gross domestic product and, for comparison purposes, the ratio between mortgage loans and the respective bank balance sheet. Whereas the first ratio, as presented in the speech, is very low, the second ratio, according to Mr Peppetti, stands at only about 20-30%, since as a rule it is a matter of universal banks.

Finally, Professor Grünbichler asked for an explanation of the refinancing structure of the Italian banks and their influence on the MREL discussion. Mr Peppetti confirmed that the MREL requirements are also increasingly being discussed in the Italian banking sector. Due to the heterogeneity of the Italian banking landscape, however, no clear statement could be made in this regard. In reply to the question of whether paper acquired by private individuals should be eligible for MREL, Mr Peppetti stated that a political discussion on this subject would currently be difficult to conduct in Italy.

Mr König inquired into the possible deductibility of interest payments for tax purposes in the case of mortgage loans in Italy and possible standards according to which deductibility is regulated. According to Mr Peppetti, 19% of the interest payments on a mortgage loan for a first home could be claimed in Italy for tax purposes. However, due to the low interest environment, this regulation currently has no impact on house prices.

ITEM 4: Internal discussion on other current topics; report from Brussels

Mr Pfenning opened the internal part of the meeting with a report on the current status of the banking package, and especially the leverage ratio. The banking package was in the final phase of the political negotiations. The EFBS was monitoring the trialogue negotiations very closely and in particular put forward its call for the possibility for netting pre-financing and intermediate loans for the calculation of the leverage ratio. While the European Parliament supported the call for netting, there was substantial resistance in the Council of the European Union. As a result, a stalemate had resulted since September 2018. The Federation therefore was campaigning vigorously for the call for netting at European and national levels.

Mr Ketzner reported on German activities in this respect. In general, the Council of the European Union has long held the view that the Basel text should be implemented one for one and exceptions should not be permitted. The call for netting was therefore at all time presented as avoiding a disadvantage. The German supervisors were informed of the call for netting at an early stage. From the time that it had been pointed out by Mr Pfenning that the call would be rejected in Brussels, the call was once again presented to the German Federal Ministry of Finance (BMF). At the same time, the EFBS members had been asked to do the same in their respective national ministries. In particular, according to Austria, close coordination was taking place with Professor Grünbichler. In the course of the exchange with the German BMF, a revised paper was drawn up which still further underlined the resilience to insolvency of the Bausparkasse due to Bauspar assets and the contractual combination financing comprising pre-financing and intermediate loans and Bauspar loans. This should ensure that the matter would be capable of achieving a majority at European level, since on the basis of these specifications, only Bausparkassen would benefit from the netting possibility. Under the trialogue negotiations, the European Commission had received the mandate to draw up a proposal for a new, narrowly worded text, which would make netting possible only for Bausparkassen. The starting point for this proposed text is the revised German paper, which was sent to the German BMF. This represents the current status of the work.

Professor Grünbichler referred in this connection to an amendment of the Bausparkassen Act in Slovakia, which would enter into force on 1 January 2019. Mr Feix spoke on these amendments to the Slovakian Bausparkassen Act. Although it had been possible to mitigate some of the originally planned amendments, unwelcome innovations nevertheless remained. For instance, the friendly saver had been completely abolished, an income level based on the German model introduced and the minimum rate of the Bauspar premium limited to 2.5% (in the final year, only half the premium would be paid if the contract is concluded in the second half of the year).

Professor Grünbichler thanked the interpreters and closed the meeting.