Minutes

of the meeting of the Financial Affairs Committee
held on 21 March 2019, from 16:00 to 18:00
at Thon Hotel (Rue de la Loi 75), Brussels

Chairman:	Grünbichler, Andreas	Bausparkasse Wüstenrot AG
President:	Jeníček, Jan	Raiffeisen stavební spořitelna a.s
Managing Director:	König, Christian	European Federation of Building Societies
Participants:	Anghel, Lucian	BCR Banca pentru Locuinte S.A.
	Botzem, Dirk	Debeka Bausparkasse AG
	Cariboni, Mario	Wüstenrot
	Conradi, Ralf	Bundesgeschäftsstelle LBS
	Dörr, Thomas	Deutsche Bausparkasse Badenia AG
	Eichwede, Rainer	Bausparkasse Schwäbisch Hall AG
	Ferencz, Iván	Fundamenta - Lakáskassza Zrt
	Freise, Agnes	Verband der privaten Bausparkassen e.V.
	Guthmann, Axel	Bundesgeschäftsstelle LBS
	Holler, Kathrin	European Federation of Building Societies
	Kaschel, Rainer	Fundamenta - Lakáskassza Zrt
	Kašiar, Radomír	CSOB Building Saving Bank
	Ketzner, Christian	Verband der privaten Bausparkassen e.V.
	Keuper, Lisa	European Federation of Building Societies
	Khalife, Mahmoud	Bundesgeschäftsstelle LBS
	Körbi, Uwe	LBS - Westdeutsche Landesbausparkasse
	Kofron, Tomás	Ceskomoravská stavební sporitelna, a.s.
	Lohöfer, Norbert	LBS Landesbausparkasse Baden-Württemberg
	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
	Pfenning, Jonathan	European Federation of Building Societies
	Poos, Marc	Oeuvre CGFP d'Epargne-Logement
	Prokopp, Josef	Alte Leipziger Bauspar AG
	Schudrowitz, Juri	Verband der privaten Bausparkassen e.V.
	Sedivy, Jiri	Asociace Ceskych Stavebnich Sporitelen
	Simon, Markus	Deutsche Bank Bauspar AG
	Stifter, Karin	S-Bausparkasse
	Surm, Andreas	Signal Iduna Bauspar AG
	Tacacsova, Lucia	Prva Stavebna Sporitelna, a.s.
	Tichy, Zoltán	Erste Lakástakarék Zrt.
	Varzaru, Cristina	BCR Banca pentru Locuinte S.A.
	Vogt, Achim	BHW Bausparkasse AG (NL Luxembourg)

Weinrich, Marc	International Union for Housing Finance
Zaremba, Petr	Raiffeisen stavební spořitelna a.s

Guest speakers: Mr Paul Beck**,** Assistant of Peter Simon (Member of the European Parliament and Rapporteur on CRR/CRD IV – part of the banking package)

Mr Olli Castrén, Head of Economic Analysis and Impact Assessment, EBA

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. The main themes of the meeting were the banking package, with the focus on the much discussed leverage ratio and proportionality, and the EBA call for advice.

ITEM 2: Finalisation of the banking package: overview of the current state of the legislation

Professor Grünbichler introduced Mr Paul Beck, Assistant of MEP Peter Simon (SPD), who had been unable to attend, as first guest speaker. Mr Beck, together with Mr Simon, had worked intensively on the review of the banking package (CRR and CRD IV). He started his speech with an overview of the current status of the banking package. He explained that the review was necessary to implement the international requirements laid down by the Basel Committee (Basel III). These requirements included the introduction of a binding leverage ratio. He addressed proportionality and the introduction of a definition for small, non-complex institutions. He confirmed that the final vote would take place in plenary session in mid-April 2019 and the CRR would be applicable 24 months after publication in the Official Journal of the European Union.

With regard to the most important points in terms of content from the point of view of the Bausparkassen, Mr Beck reported on the topic of proportionality and emphasised that small, low-risk banks should not be subject to excessive bureaucracy. The special business models of the Bausparkassen should therefore be taken into account in the EU regulations. A definition of small, non-complex institutions is essential for that purpose. Institutions defined as small and non-complex could in future benefit from a series of exemptions. Mr Beck explained that a small institution should have a balance-sheet total not exceeding EUR 5 billion, while Member States could reduce the threshold depending on the size of the country. In addition, Mr Beck referred to the qualitative requirements to be considered as non-complex. These include, for example, that the institution has a small trading book. In addition, Mr Beck explained that 75% of business must have a link to the EU. Finally, Mr Beck emphasised that national supervisory authorities could, where justified, refuse classification as a small, non-complex institution and that it was not a matter of imposing lower capital requirements for these institutions but of reducing the administrative burden. With the simplified NSFR, only ten per cent of the data would still have to be supplied, which should represent considerable relief for small institutions.

Mr Beck then turned to the issue of disclosure for small, non-complex institutions. Here, he focused in particular on key parameters (information on own funds, tier 1 capital, capital buffers, leverage ratio, liquidity ratio, NSFR and, where appropriate, MREL), which have to be disclosed. Consequently, there is no need to disclose information on the business structure, remuneration and risk management. This applies for unlisted institutions. In the case of listed institutions, certain information on risk management must be provided.

Concerning reporting, Mr Beck summarised that MEP Simon's proposal had been adopted, which provided that the EBA should issue a report examining what the added value of the data to be reported is. This would avoid superfluous data collection. In addition, the average compliance costs for small institutions should be reduced by at least 10% and ideally 20%. A generally important point, according to Mr Beck, is the integrated European reporting system, which is to provide an answer to the criticism concerning different reporting systems. The ECB specifications would be used here.

Furthermore, Mr Beck mentioned that there are further simplifications for small institutions concerning the trading book and especially concerning the interest rate risk. With regard to the interest rate risk, Mr Beck referred to own models and the new regulation that the supervisory authorities have more scope here to determine whether the bank's own model is appropriate to gauge the interest rate risk. The reference value of 15% is retained, but the supervisor can decide that 14.5% constitutes insufficient cover, whereas at 15.5% everything is in order again and so the internal model can continue to be used. Mr Beck also touched on the exemption for Bausparkassen concerning netting of prefinancing and intermediate loans. He emphasised here that it had been difficult to gain acceptance for this at the Commission and the Council. Mr Beck highlighted the need to participate in Commission impact studies as only in this way can the specific characteristics of the Bauspar system be incorporated in the legislation.

Concerning the next review in 2020, which will also mark the finalisation of Basel III, proportionality will continue to play an important role. Mr Beck also explained at the end of his speech that the Basel Framework had been developed more for banks operating internationally.

ITEM 3: Outlook on the implementation of the final Basel III Framework: Are there European characteristics, which have to be taken into account in global standards?

Mr Castrén, Head of Economic Analysis and Impact Assessment, spoke on the call for advice, which had been commissioned by the European Commission in 2018. He began his speech with an overview of the various categories covered by the Basel Framework. He emphasised that under Basel III there is also a new analysis on operational risk. In his opinion, a controversial subject under the Basel framework is the discussion concerning the output floor. After difficult discussions, the new rules, which provide for an output floor of 72.5%, would have to be implemented. The implementation phase is running from 2022 to 2027. The review of the trading book had been postponed from June to September 2019.

The EBA was currently working on the finalisation of the data collection which was to be converted into two separate reports. On the one hand, there would be a quantitative report to be drawn up with the help of the Statistics Division. The second report would be drawn up by the Regulation Division and would likewise be based on the quantitative results of the studies, but also on the discussions with various stakeholders. In addition to the quantitative study, a qualitative survey was also in progress, which would be included in the call for advice. However, the EBA was already analysing the replies made by market participants concerning the implementation of Basel III. Mr Castrén explained certain figures concerning the implementation of Basel III, which are compiled and published regularly.

With regard to the binding requirements concerning the leverage ratio, Mr Castrén confirmed that, for most institutions, their leverage ratio would not increase further with the finalisation of Basel III. In addition, the risk-weighted requirements would play a greater role.

The timeline of the call for advice would also be addressed. It was to be finalised in June 2019. 186 institutions had taken part in the quantitative survey and 178 banks in the qualitative survey. Capital requirements and proportionality, as well as different business models, play a role in the data analysis. Furthermore, macroeconomic factors had also been included in the analysis.

The main topics covered by the call for advice are credit risk concerning rating agencies and capital requirements, operational risk and the output floor. For the rating agencies, it is principally a matter of which practices are permitted and which are not. Concerning the output floor, there are various scenarios which are investigated and analysed. Finally, Mr Castrén confirmed that the Basel Framework is very important and the EBA is trying to compile an objective call for advice. The Basel rules are international rules, although implementation takes place at national level; therefore there would also be national divergences.

ITEM 4: Review of the legal basis of the European Supervisory Authorities: Current state of negotiations and impact on member institutions

At the end of the meeting, Mr Pfenning spoke about the review of the ESAs, on which a few hours previously an agreement had been reached between the European Parliament and the Council of the European Union. The far-reaching European Commission proposal had been watered down so that the national supervisory authorities remain central; the Member States had managed to prevail at the Council in this respect. Likewise, a new financing system had been rejected. A further point for the next legislative period was to promote proportionality and subsidiarity.

Professor Grünbichler thanked the speakers and the participants and closed the meeting.