

# REPORT

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**on Activities of the Hungarian Banking Association**  
**2<sup>th</sup> Quarter 2015**

**Budapest, September 2015**

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## **I. Executive Summary**

In Q2 of 2015 the **world economy** showed a diversified performance, due mainly to the influence of low oil prices, the drop in prices and mass sale of assets in Chinese asset markets, the escalation of the Greek debt crisis, and speculations about the change in the USA's monetary policy. The US economy – after its surprisingly weak figures in the First Quarter – started growing again, with domestic consumption and investment remaining its driving forces. The European Union's economy performed less spectacularly than in the previous quarter, but continued to show an improvement; the correction of oil and food prices decreased expectations for deflation. Japan is stumbling towards recovery from its recession, Brazil and Russia have clearly sunk into it, while China continues its forced shift towards a relatively slower pace of economic growth.

The **Hungarian economy's** surrounding environment was mostly supportive, due to the strengthening economy of the European Union, however, the Greek crisis and geopolitical tensions between Russia and Ukraine hindered macroeconomic performance. At the end of the second quarter, annual GDP growth was 2.7%, 0.5% during the quarter, which, although it exceeds EU average (1.6% and 0.4%), only qualifies as second rate amongst our regional competitors. Growth was less than expected due to a weaker performance in agriculture; industrial production expanded by 11%. Regarding consumption, net export performed outstandingly, household consumption increased significantly, and investment also increased. The balance indicators continued to be favorable, the central government deficit was barely more than in the same period last year, external financing capacity increased to 9% of the GDP this year. In Q2 inflation trend reversed, compared to the same time last year prices rose by 0.8%, core inflation was 1.3%. The NBH continued its successive interest rate cuts: with 15 basis point steps per month, it abated the benchmark rate to 1.5% by the end of the term, and later in July, having reached 1.35%, declared that the interest-reduction cycle was over. The forint exchange rate fluctuated significantly: for a short while in the middle of April, it dropped under 300 HUF/EUR, then rose to over 310 HUF/EUR by June.

The aggregated total assets of **credit institutions** grew moderately (nominally 1.33%), due to the weakening of the forint. Within asset portfolio the ratio of liquid assets continued to grow. The total gross loan portfolio increased by 1% nominally, but excluding the effects of the exchange rate, this means a nearly 1% decrease. Loans granted to enterprises shrank by nearly 2% (4.5% excluding exchange rate effects). Concerning the settlement of foreign exchange based housing loans the decrease of retail loan portfolio did not cease, dropping by an additional 2 percentage points compared to the previous quarter. Deposit balances decreased slower (0.7%), net debt-to-deposit ratio grew by 2% compared to the 96% at the end of March. The credit institutions sector ended Q2 with similar results to the previous quarter; the total profit for H1 of 2015 was HUF 155 billion before taxes. (The sector's annualized average return on assets before taxation (ROA) was +0.92%, and its return on equity (ROE) was 9.8%. Mildly positive results were achieved, excluding the effects of risk costs. However, prospects for actual profit continue to be bleak, the sector's realized medium term profit may be negatively influenced by the obligation to replenish different shelter funds and provide advance payments.

During the second quarter, activities related to the execution of **settlement, HUF conversion and fair banking** laws remained the central topics of banking/banking associations' work fields – the necessary, initiation and request of interpretations, corrections in legislations – as well as participating in the creation of the **regulation on private bankruptcy** (coming into effect on September 1<sup>st</sup>) and preparing for its implementation.

According to the act on settlement, in the case of the general contract terms adopted after November 26, 2010, if they granted the possibility of unilateral modification of contract terms, interest, fee, the NBH had the right to initiate **public interest proceedings**. Before initiating the

action, financial institutions had the possibility to declare whether they did or did not unilaterally modify contracts, and to avoid public interest proceedings, they could expand the settlement process to contracts signed between November 27, 2010 and July 19, 2014. In the end, the NBH in its power submitted public interest proceedings against 16 financial institutions to the Budapest Capital Regional Court.

Concerning settlement we were able to achieve a reassuring solution with legislation amendment and with the NBH's resolution, regarding the unmeetable deadlines originally included in the legislation. Thus, in the case of HUF and FX loan contracts the same deadline has been set: settlements must be entered into the accounting records with June 30, 2015 as the value date, by September 30, 2015, or if the civil proceedings finish later, within 60 days after they end. We successfully initiated that ***financial institutions should not have to send a letter to consumers with information on the settlement*** in cases where there was no unilateral contract modification (zero settlement) in the closed (completed) contract. The problem was solved with the modification of the NBH's Decree 58/2014. (XII. 17.) on Provision of Information.

During the several-month preparation period of the **Debt Settlement Procedure for Private Individuals (Act on Private Bankruptcy)**, representatives of the HBA continuously consulted with the MJ's, NBH's and MNE's experts. In the course of these consultations our several proposals have been implemented into the drafts. For example, state creditors must agree to the arrangement; if execution happened before proceedings the purchase price will not become part of debt settlement proceedings; all known creditors must be notified right from the start of proceedings; any other obligors must also take part in the proceedings; the legislation contains precept to installment and indemnity owed by the debtor to the main creditor; the expenditures of the main creditor decreased significantly; the Family Bankruptcy Protection Service automatically examines assets rescue attempts before the proceedings are initiated; the legislation provides minimal return on not-collateralized banking claims; the main creditor's veto power is valid throughout the whole process, etc. At the same time we did not manage to have accepted the key proposal increasing legal certainty, which promoted for the legislation to be adopted at the same time as the provisions on implementation, with a longer transitional period, so that the parties participating in the proceedings – amongst them, the Family Bankruptcy Protection Service – may have time to prepare for their tasks. Though during the summer the preparation and negotiation of the executive regulations (government and MJ) pertaining to the legislation went on at full speed, several important key regulations were not published until the legislation entered into force on September 1<sup>st</sup>.

In June, the Ministry for National Economy initiated a consultation concerning the **implementation** of the **Mortgage Credit Directive**, which will probably take place this year, and will present further restrictions to the sector. Another important change in retail lending is the **HUF conversion of consumer (car, consumer) loans remained in FX**, the legislation of which is expected in September – after the successful consultations between the NBH, the MNE and the Banking Association.

Some of our member banks submitted **constitutional complaints** against the **Act on Quaestor Victims Compensation Fund**, which was created with incredible speed in April. (To prepare the complaints the Board approved that the HBA commission an outside expert to work out the draft submission.) Because of the effects of the brokerage firms' bankruptcy, the Act on capital markets was also amended, compensation obligations were prescribed to the Investor Protection Fund for "fictional" bonds, and the compensation limit was increased to 100,000 Euros. However, the original compensation deadline given in the Quaestor Act was not met, since the Quaestor Victims Compensation Fund could not start the compensation process, as it lacks the directly enforceable state guarantee and can receive loans from neither the NBH nor the market. Thus, victims will only receive the Investor Protection Fund's compensation according to the Act on capital markets.

The **National Bank of Hungary** will disregard the introduction of the systemic capital buffer in light of the HUF conversion of consumer loans, but will tighten the regulation of the FX adequacy ratio and will introduce a new FX position balance ratio. Also, from October of 2016, banks will need to fulfill the value (minimum 15%) prescribed by the Mortgage Funding Adequacy Ratio. In addition, the NBH is continuously increasing the data supply load on banks. We sent a letter to the NBH's vice-president in which we objected to the ad hoc, unsynchronized, unmeetable deadlines that individual Central Bank departments demanded during their data requests.

According to the NBH survey (which took the EBA guidelines into account), most payment service providers require development to completely comply with the EBA guidelines on the security of online payments. The NBH will publish a recommendation this fall concerning the topic. Regarding the transition process into the Intergiro2 (which operates conforming to EU standards), the decision was made to solve the transfer of the Hungarian State Treasury's items by initiating a **Dawn Cycle**.

It is of key importance to the sector that during the tax alterations of 2016 the agreement on the gradual reduction of banking tax was adopted. With the adaption and announcement of the government decree concerning the transition to IFRS in June, the government satisfied an initiative that has been on the sector's agenda for a long time.

In terms of **international regulation**, the Financial Stability Board will continue its previously determined work program, the focus of which is the full, consistent and prompt implementation of post-crisis reforms, finalizing the remaining reform measures as well as addressing new risks and vulnerabilities. In this last field, it will focus on risks arising in market-based financing, and misconduct risks. Among the materials published in Q2 by the Basel Committee on Banking Supervision, those deserving emphasis are: the progress report on adoption of the Basel regulatory framework, the consultation document on handling the interest rate risk of banking books, and the analysis, which summarizes the development in credit risk management across sectors, and presents current practices and recommendations.

In the **European Union**, the Commission's announcement to start the Better Regulation program may prove to be a milestone, as well as the fact that the Eurozone's five main leaders created a common report on Completing Europe's economic and monetary union. The ECB, responsible for the Single Supervisory Mechanism, focuses on dismantling national discretions and the unification of the supervisory review and evaluation process (SREP) methodology. Implementation of the Bank Recovery and Resolution Directive among member countries and the ratification of intergovernmental agreements are prerequisites for the Single Resolution Mechanism (the Single Resolution Fund, the Single Resolution Board) to function fully from January, 2016. The Commission was granted permission to speed up its work on the Capital Markets Union, while the draft for the restructuring of the banking system (split of the biggest banks) did not succeed at parliamentary voting.

## **II. Macroeconomic outlook, the banking sector's operating criteria**

In Q2 of 2015 world economic processes were diverse. The varied performance of the world economy was mainly due to the influence of low oil prices, the current situation in Chinese asset markets, the escalation of the Greek debt crisis, and speculations about the change in the USA's monetary policy. We may, however discern certain developmental directions: after the surprisingly weak figures of its first quarter, the USA's economy returned to its previous positive economic development, the EU's economy is improving, Brazil and Russia have clearly gone into recession, while China continues to shift to a slower pace of economic development.

Extra expenses, due to damages caused by bad weather, were mainly responsible for the **USA's** weak growth indicators in the first quarter, while Q2 restituted the previous, favorable tendency of growth. The labor market continued growing throughout H1, its development still fueled by domestic consumption and investment, since the dollar and external market demand remained weak.

The **European Union's** economy continued to improve, although less spectacularly than during the last quarter. Governments tried various measures to restore normal business mood, achieving varying results: Spanish economic actors are very optimistic, the French are very pessimistic, while Germans are somewhere in-between. Positive development continues in employment, the first encouraging signs of salary growth and the moderate market reactions concerning the Greek crisis indicate that investors are counting on lasting growth. Due partly to the correction of oil and food prices, inflation in Europe rose so quickly after January's low point that expectations of deflation are almost completely gone.

Despite the encouraging processes of Q1, and the aggressive monetary easing of the government, Japan continues to struggle in coming out of its recession. Investments are still falling, and export, in spite of the weakening yen, isn't improving as much as expected. Real income decreased compared to Q1 tendencies, consequently domestic commerce performed weakly.

The economies of the **BRIC countries** also continued to give varying performances. The **Chinese economy's** deceleration seems to have come to a halt, yet, at the same time, the monetary easing measures taken by the government for this purpose seem to have lead to balance problems. These increasingly worry investors, resulting in significant withdrawal of their capital, especially in emerging Asian countries' capital markets. **Russia's** crisis (the emerging economy that influences the Hungarian one the most) has worsened for multiple reasons, but the Central Bank's political monetary measures succeeded in limiting the further dropping of the ruble, and significantly moderating inflation. Despite these efforts, within the group, it is here that economic fundamentals are the most vulnerable: the labor market is declining, Russia is unable to mitigate its oil and gas export dependency, and the state's exaggerated influence on the economy distorts capital structure. **Brazil** is visibly falling into recession. Although its export performance in Q2 was better than expected, the weaknesses of its fundamentals (a depreciating currency, high inflation, the indebtedness of the private sector), forecast further problems. **India** performed outstandingly, surpassing China in growth.

The **Hungarian economy's** surrounding environment was mostly supportive, due to the further strengthening economy of the European Union, however, the Greek crisis and geopolitical tensions between Russia and Ukraine continued to significantly influence macroeconomic performance. At the end of the second quarter, annual **GDP** growth reached 2.7%, 0.5% during the quarter. Even though this exceeds EU average (1.6% and 0.4%), it only qualifies as second rate amongst our regional competitors. On the production side, GDP growth was aided by **industrial growth** (+11%), with the manufacturing of motor vehicles and chemicals aiding performance. According to the first estimate,



growth was less than predicted due to an inferior performance in agriculture. On the consumption side, net export did outstandingly, and household consumption also increased significantly (thanks to improving employment, and a 3.5% increase in average wage), while – contrary to predictions – investment increased (+5.7% compared to Q2 of 2014), in spite of the high basis achieved last year.

Compared to this same period of last year, **unemployment rate** improved significantly (8,1% → 6,9%), as well as the average quarter **employment rate** of people of prime working age (60,7% → 63,8).

The **inflation** trend reversed in Q2. In April, compared to the same time last year, average consumer prices decreased further, however, in the following months they increased, giving a total of 0.8% price increase compared to the same time last year. Core inflation also grew, reaching 1.3% on year-to-year basis by the end of the period.

Since the slow increase in prices following the reversal of the inflation trend does not endanger the Central Bank's aims, the NBH continued its series of interest cuts throughout the quarter, with 15 basis point steps, and managed to decrease the benchmark rate to 1.5% by the end of that period. (The Central Bank announced the end of the interest cut cycle in July, at a base rate of 1.35%).

The balance indicators of the Hungarian economy continued to move in a favorable direction. The **central government deficit** (HUF 823.3 billion) was barely more than HUF 10 billion more in H1 of 2015 than at the same time in 2014, which, in light of the improving growth data indicates a relative decrease. The main reasons for the positive development concerning government deficit continue to be increasing tax revenues, and decreasing interest expenditure, due to better economic performance. The government seems to be committed to keeping the 2.4%, GDP proportionate government deficit. External balance also continued to improve. External financing capacity (current account and capital account balance), may grow from last year's 7.8% all the way to 9% of the GDP this year, due partly to the improvement of external trade exchange ratio caused by a lower world market price of energy, and partly to export activity, which turned out to be more dynamic than predicted.

During the quarter forint exchange rate was volatile. After a longer period (15 months), for a short while in the middle of April it dropped under 300 HUF/EUR, reacting, however to the fast European yield increase and the escalation of the Greek crisis (i.e. to mainly external factors), it later weakened to over 310 HUF/EUR by June.

In Q2 the **aggregated total assets of credit institutions** increased moderately in nominal terms (+1,33%). The Hungarian Forint, compared to the top currencies – weighted to FX portfolio – weakened by an average of approximately 5%. Foreign exchange portfolio makes up 25% of total assets, therefore, we may deduce that assets stagnated on a sectorial level, except for a structural change between individual asset items.

Within the **asset portfolio**, the share of liquid assets continued to increase. Within this, due likely to the self-financing actions of the Central Bank, the share of long-term government securities grew significantly (+17%), as well as the stock of EUR on foreign nostro accounts (+150%, in HUF nearly 170 billion).

The total gross loan portfolio grew by 1% in nominal terms, but after removing the portfolio increasing effects of the weakening HUF, we may observe a near 1% decrease. Impairment continued to decrease in the second quarter (by 1.7% nominally, and by 3.5% excluding exchange rate effects), consequently the net outstanding loans stagnated.

Within the loan portfolio, it should be highlighted that loans given to internal, non-financial enterprises shrank by nearly 2% (4.5% excluding exchange rate effects), and NHP Plus aided HUF loans also decreased by 6%. After the settlement of foreign currency denominated consumer loans, its decrease did not stop; it fell by a further 2% compared to the previous quarter. The only favorable business tendency is the expansion of the financing of private entrepreneurs (+10%), however, this – due to its low basis – could not appreciably influence total outstanding loans.

On the *liability side*, deposit balances decreased lightly (- 0.7%). This was mainly due to the deposit withdrawal of the public sector (-12%), while retail and corporate loans increased meagerly (by +0.5% total). The provision portfolio created in connection with the settlement of foreign currency denominated retail loans decreased further (by another HUF 74 billion, after HUF 450 billion in Q1, i.e. by -34%).

As an overall result of the above effects, the net debt-to-deposit ratio of the credit institutions sector grew by 2% compared to the 96% at the end of March.

In terms of **profit**, the credit institutions sector reported a similar performance in Q2 to the previous quarter (HUF 80 billion in the quarter, HUF 155 billion by H1). Within business results, the net fee income 18% increase is worthy of mention. General and administrative expenses somewhat increased (+5%), mostly due to providing information to clients regarding settlements. Risk costs decreased by HUF 9 billion. On the whole, we may conclude that this is the first time after the last 4 quarters that, through filtering out the effects risk costs, mildly positive results were achieved.

As a result of these effects the sector's annualized average return on assets, before taxation (ROA) was +0.92%, and its return on equity (ROE) was 9.8%.

### **III. Corporate Lending**

According to the Hungarian Central Bank's report on lending process, 2015's **first quarter's** data shows that corporate lending continues on its path to fragile recovery. Total corporate loans grew (at a decreasing rate) by 0.6%, while credit dynamics continued to increase in the SME sector; loan portfolio increased by 3.3%. (As a result of these transactions, loan portfolios of non-financial enterprises towards the credit institutions sector decreased. The volume of installments was almost HUF 203 billion more than that of disbursement, mainly due to the decrease in FX loans, and repayment of a large-sum syndicated loan in HUF portfolio. During the quarter, signed contracts brought HUF 76 billion through the Funding for Growth Scheme (FGS), which amounts to a larger sum than in Q1 last year. The FGS largely contributed to the favorable outcome of corporate loan processes, despite the seasonal relapse (typical of Q1), which transpired here as well. The interest on HUF corporate loans decreased – mainly in the case of larger loan sums – and approached that of EUR loans, while the average exchange rate level of domestic corporate loans was favorable in regional comparison.

## **Phase 2 of the Funding for Growth Scheme<sup>1</sup>**

According to NBH statistics, in phase 2 of the Funding for Growth Scheme (up until July 31, 2015), credit institutions signed contracts with 19, 454 enterprises, worth HUF 825.8 billion. In phase 1 and 2 of the FGS, altogether around 24,200 enterprises received financing, worth nearly HUF 1,530 billion. 95% of contracts validated in phase 2 are new loans, 65% of these being new investment loans, 26% new working capital loans, while 9% are EU grant pre-financing loans. In pillar II, credit disbursed to redeem existing investment loans was 69%, while loans to redeem existing working capital loans were 31%. 74% of credit disbursed in pillar II served the redemption of HUF loans, while 26% was for redeeming foreign currency loans. The average size of new investment loans in pillar I transactions was HUF 22 million, working capital loans were generally HUF 58 million, while EU loans were 31 million on average.

In pillar I, new investment loans' contract total-weighted average maturity is 6.9 years, that of working capital loans is 2.5 years, and 2 years in the case of EU loans, while in pillar II that of credit disbursed to redeem existing investment loans is 6.7 years, and credit to redeem existing working capital loans is 2.5 years.

Agriculture, trade and repair, and the manufacturing industry have a superior share, with nearly three-quarters of loans pertaining to these three fields.

### ***IV. Retail Lending***

As stated in the NBH's June 2015 report on Trends in Lending: „The settlement and conversion of foreign currency loans considerably reduced household indebtedness and simultaneously also changed the structure thereof: the ratio of foreign currency loans within total household loans fell below 5 per cent. The volume of newly disbursed household loans increased in year-on-year terms. The debt cap regulation with its entry into force in January does not slow down healthy household lending according to the available data, while strengthens financial stability and prudent banking operations. Based on the answers of the respondent banks to the lending survey, terms and conditions for housing loans were constant in Q1, while those for consumer loans tightened. Looking ahead, however, the banks indicated easing conditions in both segments. Furthermore, based on the survey, the banks reported a slight increase in demand for housing loans and a decline in demand for consumer loans, however, in the next two quarters they anticipate growth in both segments. On the whole, the total annual percentage rate of charge on actual loans continued its declining trend in case of the main product types in parallel with the decrease of the base rate, and considering the extent of this easing, this also resulted in a decrease in spreads over the reference interest rate.”

### **Mortgage Credit Directive (MCD) – consultation with the Ministry for National Economy (MNE)**

The implementation of the Mortgage Credit Directive (2014/17/EU) into national law has started within the Ministry for National Economy. In this first phase, the ministry and market players discussed those points of the Directive, where EU regulation grants more freedom to member states.

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<sup>1</sup> No data has yet been published on the use of the FGS+ (introduced according to the decision of the Monetary Council, on March 16, 2015) which targets more risky small and medium enterprises

The Hungarian Banking Association's consultation delegates sought to form the upcoming national regulation and argued the following:

- that creditors may have the opportunity to charge a fee before signing contracts if applicable (for example a loan contract fee)
- that in advertisements a visible indication of APR should suffice instead of providing overly detailed information (which does not fit with the advertising genre)
- that in certain cases (in advice giving, for example) the dependent credit intermediary should also receive commission from the creditor, and
- that if the client supplies false information in his or her credit application form, the deceptive action may be sanctioned

During the consultation, the Banking Association agreed to send the MNE a proposal concerning early prepayment fees and acceptable tying. Therefore – based on the survey conducted among member organizations – we made the following proposals:

- since the directive envisaged the return of justified expenses of justifiably arising bank expenses in case of early prepayment, we listed all expenses (operational, and asset and liability management-type), which may come up in connection with early prepayment. At the same time we proposed a reasonable sum for these, as well as proposing a method for its calculation
- we stated why it is beneficial for the client if he/she repays his/her mortgage from the payment account of the creditor bank, and if business insurance on credit collateral is a requirement of loans

#### **Legislative amendments related to the settlement process, requests for opinions, public interest proceedings, correspondence related to zero settlement.**

In connection with the settlement process, also in the second quarter, we have forwarded to the Ministry of Justice subsequent requests for opinion and legislative proposals. We commented Draft Proposal No. T/4287 amending the Acts on actions necessary to combat banking settlement related abuses, which became effective after its adoption as Act LII of 2015 on 18 May 2015, and amended the settlement act and the Forint conversion act<sup>2</sup>. *The amendment complemented the rules of the settlement related complaint procedure and the procedure of the Financial Arbitration Board. In our note sent to the MJ [Ministry of Justice] we asked for harmonization of the rules on the moratorium on implementation with the act on debt settlement procedure for private individuals being under preparation and the interrupted implementation procedures should continue to remain in effect only in those cases, where a procedure for debt settlement may be initiated.*

Related to the starting date of the period of reference rates we have made complementary proposals to the Forint Conversion Act.

We have also commented the implementing regulation prepared on the basis of authorization given by the Act – *Decree of the MJ on forms to be used in non-litigious procedures related to banking settlement.*

In connection with the amendment of the Act–on settlement, participating in public interest proceedings prompted a new task for financial institutions. In case of GCTs approved after 26 November 2010 – if the inspection of the National Bank of Hungary, NBH, found that the GCT made the unilateral amendment of the contract terms, interest rates or fees possible-, the NBH was entitled to initiate a public interest proceedings until 30 April 2015. Prior to the commencement of the action, the financial institutions could make a declaration about having used the possibility of

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<sup>2</sup>Act LXXVII of 2014 on the settlement of issues related to the change in the foreign currency denomination of certain household loans and interest rate rules (Forint Conversion Act)

unilateral contract amendment and they could extend the settlement process to contracts concluded between 27 November 2010 and 19 July 2014. If they had included also this period into the settlement, the NBH initiated no public interest proceedings against them. Finally, exercising its supervisory powers, the NBH submitted public interest proceedings against altogether 16 financial institutions in front of the Capital Court.

While requesting the interpretation and amendment of the settlement act, we also noted that in case of foreign currency loan contracts not qualifying as foreign currency lending, the performance of settlement retrospectively to 31 March cannot be resolved from 1 February, as specified in the Act. We proposed that both forint based and foreign currency loan contracts to be transferred with the same deadlines and the value date being 30 June 2015, in the accounting records until 30 September 2015 or in case the civil proceedings are closed later, within 60 days from their final closing. The issue was settled by Act CV of 2015 on Debt Settlement Procedure for Private Individuals, yet in an uneven manner, the deadline was prolonged only in case of forint based consumer loan contracts. After several exchanges of correspondence, a NBH resolution settled this problem.

We also initiated that in cases when unilateral amendment of contract at the expense of the client had not taken place – although the general contract terms could make such amendment possible – the financial institution should not send an information letter on settlement to the consumers. The problem could be solved by amending NBH Decree 58/2014. (XII. 17.) on Provision of Information.. This way, having to send letters with acknowledgement of receipt about settlement result of zero value forints could be avoided. The financial institution may inform the concerned consumers in another manner that the result of the settlement in these cases is zero.

#### **V. Further important regulatory events influencing the operation of the banking sector**

##### **Act CV of 2015 on Debt Settlement Procedure for Private Individuals (Act on Private Bankruptcy)**

In the course of preparation of the draft proposal for several months, the representatives of the HBA have continuously consulted with the experts of MJ, NBH and the MNE. In the course of these consultations our several proposals have been implemented into the drafts. For example, state creditors must agree to the arrangement; if execution happened before proceedings the purchase price will not become part of debt settlement proceedings; all known creditors must be notified right from the start of proceedings; any other obligors must also take part in the proceedings; the legislation contains precept to installment and indemnity owed by the debtor to the main creditor; the expenditures of the main creditor decreased significantly; the Family Bankruptcy Protection Service automatically examines assets rescue attempts before the proceedings are initiated; the legislation provides minimal return on not-collateralized banking claims; the main creditor's veto power is valid throughout the whole process, etc.. However we could not succeed in having accepted the basic proposal aiming to increase legal certainty, namely that the act should be adopted with a longer transition period simultaneously with the implementing provisions, so that the parties participating in the procedure have a possibility to prepare for the tasks, for example the Family Protection Service against Bankruptcy that will be set up. The draft proposal was presented to the Parliament on 20 May 2015 as an individual motion. After a relatively short procedure, the draft on 30 June was adopted and was promulgated as Act CV of 2015 on 8 July 2015.

The Act will enter into force on 1 September. Until that time the decrees necessary for implementation has to be published, the Family Protection Service against Bankruptcy has to be established, the family asset supervisors have to be employed and trained and the applicable forms (hard copy and electronic) necessary for the procedure have to be prepared.

The Act has authorized the preparation of 10 Government Decrees and 7 Decrees of the Minister of Justice. The preparation of these have started after adoption of the Act, however, even if any of the decrees are published until 1 September the implementation bodies will not have time to transform their internal systems, make the necessary information technology developments and trainings. Until preparation of the quarterly report the following Government Decrees have been published:

- 218/2015. (VIII. 6.) *Government Decree on amendment of certain government decrees in connection with implementing the Act on Debt Settlement Procedure for Private Individuals,*
- 230/2015. (VIII. 12.) *Government Decree on assets and income not belonging to debt settlement related to the debt settlement procedure of private individuals,*
- 231/2015. (VIII. 12.) *Government Decree on determining the market value of the debtor's assets related to the debt settlement procedure of private individuals.*

In addition to the above mentioned decrees, we have commented the drafts of several implementing decrees (MJ draft decree on contact between participant, on the tasks of the main creditor, on the rules of co-operation between the family asset supervisor and the parties in debt settlement procedure at court, on repayment to creditors from payment account, on amendment of the rules of Administration of Court Procedures, on the request to be submitted to initiate debt settlement procedure and the forms to be enclosed, on the rules of performing a study of living conditions related to the debtor and joint debtor; Draft Government Decree on rules related to the participation of other debtors, on the professional supervisory activities of the Family Protection Service against Bankruptcy over the family asset supervisors, on determining recognizable housing needs and rental and tenure fees). Besides these – already before preparation of the draft decrees – we made proposals for regulating cash-flow issues, for the content of the decree on selling the assets of the debtor and we gave professional comments on the training material prepared for family asset supervisors.

We arranged a consultation about launching the system and about the remaining preparatory tasks, where Dr. Judit Szekér, the appointed commissioner of the MJ and the involved experts gave information to nearly one hundred bank employees about the preparation. We have collected in advance the questions of the banks related to the interpretation of the Act and the already know implementing decrees. From the collected nearly 14 pages long questions, we sent those related to the first stage of the procedure to the ministry, however, we received answers only to a few questions due to the tight time-schedule of the event. We will send again the remaining questions to the MJ in a structured form.

A few smaller not comprehensive, correcting amendment of the Act is expected during the parliamentary session this autumn, for which we also make proposals.

### **Act amendments related to the National Deposit Insurance Fund and the Investor Protection Fund**

The Parliament at the end of last year has adopted the act aiming at implementing the new deposit guarantee schemes directive (*Act CIV of 2014 on the amendment of certain financial legislation related to deposit insurance and financial intermediation*<sup>3</sup>). Pursuant to the new paragraph (3) inserted by this act into Article 272 of the Hpt. [Act on Credit Institutions and Financial Enterprises] and came into effect on 3 July 2015 would have made the conclusion of new (not electronic) deposit agreement all the more difficult and placement of new deposits based on the already existing agreements, as it provided that deposit placement may be possible only if the acknowledgement by the client of receipt of the information on deposit insurance is attested by signing the information according to appendix 6.

In order to solve the problem, prior to coming into force on 3 July we successfully recommended the insertion of a temporary rule eliminating this requirement into Article 304 (6) of the Hpt, which made

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<sup>3</sup>See our report from the 4th quarter of 2014

the fulfilment of the obligation of information possible together with the yearly information due at the end of the year.

By adopting the draft Act on amending certain acts in order to facilitate the development of the financial intermediation on 23 June 2015, Tpt [Act on Capital Markets] amendments directly affecting the operation of the Beva (Investor Protection Fund) On the eighth day of promulgation of the Act, an amendment also came into effect extending the compensation obligation of Beva to the situation, when a member of the Fund records more bonds on the client's securities accounts than the amount recorded in the administration of the central securities depository (namely, the client is entitled to compensation also in case of the sale of "fictional" bonds). The Act also specifies the calculation method for compensation in these cases. The Beva, in order to ensure the coverage for compensation, in addition to the absolute state guarantee - except for taking up loans from credit institutions - in the future may receive loans also from the NBH and may issue bonds as well. Regarding internal operations, the member of the board may appoint a permanent deputy by the approval of the board, who participates at the meetings with decision making rights, furthermore the board may elect a president annually. The most important amendment becoming effective as of 1 January 2016, is that the compensation limit increases to one hundred thousand euros, by retaining the 10% own contribution over one million HUF. The independent work organization of Beva will be terminated, in the future, the tasks will be carried out by the work organization of OBA [National Deposit Fund] by the management of the deputy chief executive officer of OBA, who is appointed by and released from his duties by the board of Beva. The composition of the board will change, from the nine member board, two persons are appointed by NGM, two persons by NBH, two persons by the professional representative organizations, one person by the stock exchange one person by the central securities depository and the deputy chief executive officer of OBA shall be a member *ex officio*.

### **Constitutional complaint against the Act on Quaestor Victims Compensation Fund**

*Act XXXIX of 2015* on the establishment of a compensation fund ensuring compensation of Quaestor victims was adopted by the Parliament on 14 April, after a motion by a member of Parliament on 10 April 2015 - by derogation from the rules of parliament procedures. The Act was promulgated on 17 April in the Hungarian Official Journal, thus the president could not be contacted for initiating prior constitutional review before signing the act, due to the unusually fast enactment.

Several serious constitutional complaints arose in connection with the content<sup>4</sup> of the Act. In our opinion the Act violates the principle of legal certainty, the right to property of investment service providers falling under the scope of the act and violates the principle of non-discrimination. According to the earlier authorization of the Board, the Banking Association commissioned an external law office to prepare the draft proposal, which was provided to the member organizations for free use when preparing their constitutional complaints, which was submitted by several member banks. The Constitutional Court will make a decision about the submissions at the earliest in autumn. Until the decision is made the Quaestor Victims Compensation Fund cannot start paying compensations based on the Act, as in the absence of the directly enforceable state guarantee it cannot receive loans either from the NBH or from the market, thus from the middle of July the concerned parties may receive compensation only based on the Capital Market Act from the Investor Protection Fund. The representative organizations also question the legal basis of compensating clients for the fictional bonds.

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<sup>4</sup>See our report from the 1<sup>st</sup> quarter Of 2015

## **Amendment of the Act on Notaries: letter to the Ministry of Justice**

The *Amendments of certain acts of judicial substance* intended to amend the rules of jurisdiction of the Act on Notaries. According to the amending proposal **the notary competent** to prepare a notarial act on acknowledgement of consumer loan contracts and the unilateral declaration of liability made under such transactions **is that notary on whose area of competence the residence of the main debtor** - in case of several main debtors, any main debtor-, **consumer is located and in the absence of residence their place of stay is located**. In case the subject or the security of the transaction is a real-estate, that notary shall be competent on whose area of competence such real-estate is located. In case of termination, preparation of a notarial act on the termination and certifying this communication shall fall within the exclusive competence of that notary, who has prepared a notarial act on the transaction and the unilateral declaration of liability.

The aims of consumer protection of the MJ, by terminating the free choice of notaries may actually suffer prejudice, the distribution of loans may become significantly more difficult and slower, therefore we have proposed to the Ministry of Justice to avoid this issue. We called the attention to the fact that the amendment may cause delays in the implementation of the fair banking act, causing significant legal uncertainty. On the part of the credit institutions the use of notaries located at the residence of the debtor will generate significant additional costs (traveling, fees), which will finally influence the costs of the consumer, too.

Finally, the objected provision was not included into the adopted text of the Act.

## **Electronic communication of the Courts**

As of 1 July 2015, the Act on Civil Procedure (Pp.) provided for compulsory electronic communication in litigation procedures between business organizations. According to an amendment adopted in the meantime, the parties and their representatives may chose the possibility of electronic communication from 1 July 2015 not only in cases belonging to the first degree authority of the tribunals, but in all levels and sections of civil procedures, thus it may be applied also in case of appeal procedures. The introduction of compulsory use was postponed to 1 January 2016. The platform for electronic communication will be the Client Portal. Registration of the Client Portal may be initiated only by a private person in his/her own name by giving an e-mail address, so the use of the system prompts problems in case of large organizations, such as banks, where several legal counsels operate. For clarifying and resolving the problems we contacted the Ministry of Justice, the Ministry of the Interior, the National Office for the Judiciary and initiated consultations, which are in progress. During this autumn further preparation of legislative instruments may be expected related to this topic.

### ***VI. Developments relating to the National Bank of Hungary and other authorities***

#### **NBH initiative for the introduction of the Systemic risk buffer in connection with consumer loans remained in FX, and issues regarding HUF conversion**

On May 13, 2015 the NBH held a consultation for banks in which it expressed that the macroprudential risk of consumer loans remained in FX is still significant after the HUF conversion of FX retail mortgages, thus it plans to introduce a systemic risk capital buffer to downsize this portfolio.



During the preparation for mortgage conversion, the banks in question had already considered, that converting the affected non-mortgage loans remained in FX at market rate (similar to February) should be talked over with the government.

In respect of the above, on May 22<sup>nd</sup> we sent a letter to the Ministry for National Economy, to the Ministry of Justice and to the National Bank of Hungary, thus initiating the market based conversion of unconverted consumer loans in FX, and also that state subsidy on interest may be granted to compensate for the rise in interest (due to varying reference interest rates), which afflicts consumers. In concurrence with recommending the HUF conversion, we asked the NBH's systemic capital buffer regulation to be postponed.

The banks that possess the largest portfolio of the loan types in question had their senior management discuss the theoretical issues of a possible conversion. Based on the Board's decision, a working group was created, which held a meeting on June 11<sup>th</sup>, and established a detailed list of conditions to be presented during the negotiations with the NBH and the ministries. On June 15<sup>th</sup> we sent a letter to the management of MNE, the MJ and the NBH in which we communicated our standpoint.

The government discussed the issue during its session on July 1, 2015; negotiations between the Banking Association, the Central Bank and the ministries involved started afterwards.

The government's key point was to use the exchange rate determined during the HUF conversion of mortgages for the HUF conversion of the FX loan portfolio in question, relieving the debtors in question from loss as a result of the market exchange rate. To volunteer, creditors are granted the opportunity of opting-in, while debtors have the chance to opt-out. The conversion deadline is quite soon: the process should be finished by the end of 2015. The NBH agreed to provide the foreign currency needed for the conversion.

Though these main points could not be modified to suit banks better, – especially the issue of involving debtors in loss distribution – several favorable results were achieved.

Following the government's final decision and agreements, the draft legislations must be finalized by the end of September so that the HUF conversion may be implemented within the deadline proposed by the government.

### **Developments concerning the modification of the FEFA (Foreign Exchange Funding Adequacy) ratio and the new FX position balance ratio**

In April, the NBH indicated that it expects the banking sector to voluntarily decrease short FX funding and swap exposure, and that if these measures are successful, it may refrain from introducing the new FX balance ratio and tightening regulations. In May, the Banking Association evaluated the positions of market actors, with the aim of investigating sector wide adjustment, and informed the Central Bank of the results.

In mid-June the NBH's relevant department initiated consultation on the draft legislation (referring to the above mentioned ratio) with the representatives of the banking sector. During the consultation it became clear that the NBH intends to take regulatory measures to reduce external vulnerability, the efficiency of self-regulation would only influence the timing of the regulation's coming into effect. We informed the NBH that issuing the regulation would fundamentally change the adjustment strategy of individual banks (e.g. by reducing motivation towards further adjustment for banks who satisfy the criteria), therefore self-regulation would not be successful. Consequently, on June 19<sup>th</sup>, the day after the consultation, we wrote a letter to the NBH's assigned leader that included our

previous objections (which were disregarded in the draft's text), and declaring that we still disagree with amending the FEFA regulation, and introducing the new Foreign Currency Equilibrium Ratio.

The amended regulation (with no regard to our comments) was published on July 30<sup>th</sup>. It will come into effect a quarter later than originally planned (October 1, 2015), on January 1, 2016.

### **Regulation for the Mortgage Financing Adequacy Ratio (MFAR)**

The NBH, after receiving approval from the ECB sent the final draft regulation back for review in June, and issued the regulation on June 20<sup>th</sup>.

In July, the Central Bank set out its views regarding eligible HUF funds, indicating that according to its standpoint, issuing securities that comply with Article 129 of the CRR is not possible, due to the limitations of Hungary's legal environment, therefore the requirements stated within the regulation may only be met through mortgage bonds. In connection with this we turned to the Ministry for National Economy and inquired if it plans to create a securitization regulation that complies with the above mentioned CRR regulation.

### **Comments on the EBA's recommendation regarding remuneration**

The European Banking Authority held a consultation lasting from the beginning of March, until June 5<sup>th</sup> (2015), in which it aimed to have the 2010 CEBS Guidelines on Remuneration Policies and Practices replaced by the new EBA recommendation. Since the NBH must also adhere to the new recommendation, we thought it appropriate to voice our comments on it during the consultation with the EBA. (The European Banking Federation also sent its comments to the EBA consultation, several of which matched the issues raised by HR Committee members.)

We sent the Banking Association's response (given at the consultation) to the EBA on June 3<sup>rd</sup>. In addition to some technical recommendations we emphasized our disagreement with the new interpretation of the CRD's remuneration rules' proportionality and neutralization principles. This, regardless of size, business volume, complexity, etc. holds all rules concerning remuneration of the CRD4 as a minimum requirement, as opposed to the previous interpretation (followed also in the law on credit and financial institutions), which granted possible exemption from fulfilling certain requirements that were inapplicable to smaller institutions.

### **Consultations with the NBH on mandatory data supply**

#### *Extraordinary data supply regarding non-performing retail mortgages*

The directorate of the NBH responsible for financial stability organized a consultation on May 8<sup>th</sup> with the participation of the NBH, HBA and banking risk management, reporting service experts. The aim of the consultation was to work out a one-time data service with data content that would help determine more exact factors for the lack of performance and possible management options for non-performing retail mortgages, which remain after settlement. NBH staff indicated that the data service should be available speedily to aid the NBH's senior management in their decision making process. During the consultation participants concentrated on determining which data may help resolve the above issues; they did not examine the availability or producibility of the data in question.

Following the consultation we contacted the leader and project leader of the NBH's relevant directorate by mail, communicating that producing the data in question to be available on a general banking sector level is dubitable. The exaggerated amount of data request (which exceeds even that of the AQR done by the ECB in the second half of 2014) is not indicated by the assessment goals known to us. In addition, we highlighted that the circle of banking experts is already overburdened with the settlement of retail loans and the HUF conversions of mortgages in FX. At the same time, we asked that the consultations continue to ensure the timely creation of extraordinary data supply and that data quantity stays within feasible measures.

During the consultations with banking experts, the data content that can reliably be made available from banking systems was specified. The NBH defined its data request taking this into account, and issued a decree on May 27<sup>th</sup> requesting extraordinary data supply, with July 15<sup>th</sup> marked as the deadline.

#### *New data supply regarding settlement and HUF conversion*

The NBH's consumer protection directorate indicated that it intends to broaden data supply related to settlement. In connection with this, it invited the Banking Association's representatives to its relevant consultation on May 14<sup>th</sup>, 2015, and in the meantime made the new data table drafts available. During the consultation, we emphasized that the short-term completion of the data request would be difficult to implement, due to limited development capacity, which would already be overwhelmed with the settlement's first round and the HUF conversion of mortgages into FX. While examining the data tables we also suggested which type of information would be adequate to include in data supply, in terms of communication.

On June 17<sup>th</sup> the NBH sent us its data tables (reviewed based on the consultation) and the guidelines for filling them out, and asked for our quick response. The draft gave the deadline for data supply by July 10<sup>th</sup>. In our response we asked that after the issue of the data supply decrees the NBH provide us with at least 45-60 days to submit the data, and we recommended several technical modifications as well. The NBH issued the decrees on July 2<sup>nd</sup>, with the deadline for submission set for August 10<sup>th</sup>, and took our further comments into account throughout the data supply request finalization process.

#### *Letter for the coordination of mandatory data supply*

In our letter to the assigned Vice-President we asked again for the NBH to take steps to limit the unnecessary data supply load on the credit instructions sector. The constantly growing number of reporting obligations demands a large amount of resources, and is nearly becoming physically infeasible. In our letter we voiced our objection to the fact that the NBH, when ordering new data supply, disregards its own data and often requests information, which the banks don't possess or which would require much longer to obtain and reliably present than the given time limit dictates. While we understand and support the NBH's need to acquire quick and precise information for the performance of its tasks, we would deem it appropriate if they included banking practitioners in the data request preparation process, if the different central bank departments synchronized their new demands better, and if they granted enough preparation time for credit institutions.

### **Consultation with NAV's supervisory and executive departments on banking data transmission**

The Hungarian Banking Association's Payments working group discussed the problems concerning NAV's data request for individual client throughout several sessions. The tax authority developed its

up-to-date electronic bank data request system for enforcement, criminal, and supervisory purposes, in accordance with regulations. However, there was no detailed agreement made on the specific content of the data acquired from banks. Consequently, the data transmission, which was intended to be automatic, was continuously burdened with fulfilling the supplementary manual data requests of authorities.

The Payment working group established a Task Force, which developed detailed and straightforward data request categories. The results were sent to NAV as the Banking Association's proposal. During the consultation held by the tax authority, the representatives of the Banking Association, among other things, achieved the following:

- clarification of the data request method for savings accounts and credit accounts
- sorting out the handling of private entrepreneurs' business or private bank accounts
- establishing as a fundamental principle to only make those changes in data transmission, which require minimal IT development for either parties

Due to the complexity of the arising professional and IT questions, the negotiations were followed by written consultations: these will continue into the next quarter.

## **VII. Payment**

### **Bank participation in GIRO's working groups**

#### *Development of direct debit*

Within GIRO Zrt.'s framework a new working group has been formed with the participation of the Central Bank, commercial banks, and GIRO's experts dedicated to enhancing the spread of direct debit. The working group organized several sessions in which it first discussed the problems that impede the spread of direct debit, then listed them in order of significance and how much it would cost to solve them. Following this, the working group moved on to processing the more important and less costly topics, and proposed solutions for the following:

- necessary changes in legislation
- recommendations to banks and creditors (beneficiaries)
- creating a new website to gain popularity for the product.

Concerning the discussed problems, we must highlight that:

- it will be mandatory for creditors to send the debtor's bank an answer on the received mandate within a given time period (presently there is no such rule, thus banks cannot provide information to clients who stage complaints to them),
- a legislation will regulate what the account holding bank's tasks are in case its client (the account's proprietor, the creditor) changes either his own or other customers' identification,
- banks will prepare a recommendation for creditors, which includes what kind of algorithm and character set they should use for the creation of client IDs to make administration easier,
- to make problem handling easier, banks' and creditors' main contact persons will be displayed on a certain part of the direct debit promotion page within GIRO's website, which will be available to market actors but not to clients.

GIRO will finalize the proposal and will present those parts related to legislation to the NBH by itself.

#### *Initiating Cycle „0”*

According to the Central Bank's published plans, clearing turnover will continue to be shifted over to the modern, EU compliant Interegiro2 (IG2) system. The current step being taken in this process is the transfer of public wages, social benefits and pensions from the IG1 system into the IG2 system, initiated by the Hungarian State Treasury. The NBH and GIRO consulted with banks several times on the issue. The main problem was that until now there was enough time for the processing and crediting of HST items that were settled during the night, and received by banks at dawn. However, in IG2 if at a certain time during the day many items arrive at the same time (pensions for example!), then, due to the inflow of other items as well, there will not be enough time to credit all these items immediately, which might cause clients to complain.

A solution was developed during the consultations: that IG2 should start a night cycle, which – similar to the IG1 – will process the bulk of HST items and will make them available to banks by dawn. Since this proved to be the solution that required the least alteration and development, banks accepted that HST items will be transferred into IG2.

The Dawn Cycle (or Cycle 0) is planned to start on January 1st, 2016. Until then, GIRO's working group will organize the technical details, appropriate testing date, and necessary modifications to the rulebook of Cycle 0 (which will probably only operate for two days each month, and will only process the Hungarian State Treasury's items).

### ***KELER's Account management system development project***

The Banking Association played an active part in the clarification process of the launching plan for the far-reaching account management project, which will impact the whole banking system. The Association summarized arising questions, problems and recommended the determination of a circumspect initiation date for the project in a written letter to KELER, as indicated by its member banks.

KELER's management thanked the Banking Association for its assistance, and responded that

- the project initiation date will be determined later
- further steps of the project will be worked on together with the service providers involved (including banks) shortly.

### **Results of the NBH survey on the security of online payments**

Acting according to the guidelines set by the European Banking Authority, the NBH requested a self-assessment questionnaire at the beginning of the year for banks and other payment service providers. The central bank experts ascertained that the results are mixed – most payment service providers only partially meet or require development to completely comply with the EBA guidelines pertaining to the following:

- prohibition of outsourcing contracts
- supervision of risk scenarios
- comprehensive risk analysis oversight once per year
- query and analysis of logged transactional or electronic data within mandate in order to find inconsistencies, unauthorized data modification or illegal access
- systems suitable for fraud detection and prevention to identify suspicious transactions or electronic instructions before the payment service provider gives its final approval
- strong customer authentication in case of access to or modification of confidential data
- strong customer authentication when paying online with a bank card

- organizing programs aimed at improving the knowledge and awareness of clients
- online payment habits and the services related to them

At the consultation organized for the members of the IT security working group, NBH representatives stated that they fully endorse the scope of the EBA guidelines, agreeing that clients should be protected from fraud, and recognizing the importance of sensitive payment data protection during online payment.

The NBH, after fulfilling its duties towards the survey, declared to EBA that it wishes to comply with the online payment security guidelines. Noting the current circumstances in Hungary, the NBH started working on its own *recommendation on the security of internet payments*, to be published in September of 2015. It has promised to consult with the banking community before issuing the not yet elaborated recommendation.

### **Activities of the SEPA Migration Working Group**

The SEPA Working Committee used experts to create a Migration working group to aid in the uniform interpretation and fulfillment of requirements of the so-called End-date regulation (260/2012/EU). Based on the EDR, the working group identified and sized up those issues, which it will have to solve within its mandate (ending on July 31, 2015), thus aiding banks and payment service providers in the timely planning and provision of resources needed for their preparation, until the end-date on October 31, 2016.

The working group held three sessions. It clarified the following on its own or by asking the NBH declare its views:

- the requirement of contact information regarding SEPA payment schemes, especially, the SEPA direct debit scheme
- rules and procedures for the creation, issuance and registration of creditor identifiers
- the analysis of the rule on prohibition of the conversion service of bundles by payment service providers (i.e. the prohibition of the conversion of submitted instructions that are non-SEPA standard into ISO20022 XML format)
- the IBAN-only problem in Hungary: the clear insurance of the payee's payment service provider's BIC code by the payment service provider of the payer, instead of the payer himself

In addition, the working group also dealt with the future usability of other message types (e.g. SWIFT MT101 and MT103), as well as with the issues regarding fees. While working these out, the working group also used the information provided by the Eurozone mother institutions, as they already have to meet the EDR's requirements since August 1, 2014.

The working group will publish its results not only for payment service providers, but for other stakeholders also.

### **Bank Cards**

In March of 2015 the European Parliament approved a proposal for the regulation of bank card multilateral interchange fees (MIF), and published its text in May, in the Official Journal of the European Union. According to the regulation, maximum 0.2% interbank commission may be charged on debit card transactions and maximum 0.3% commission may be charged on credit card transactions. The same fees were introduced in Hungary in the beginning of 2014, establishing a sort

of “testing market”, however, signs of card market restructuring or rise in entrepreneurial interest towards POS terminals are not yet visible, despite the regulators’ predictions.

Recently, the operating license of new market actors (DRB group) offering bank card related services have been withdrawn, presenting a challenge in the maintenance of a constant, uninterrupted bank card settlement process in Hungary. Due to this, the Cards Working Group continued its consultations with NBH experts about incorporating the banking sector’s observations into NNER (National Net Settlement System) in order that bank card settlement processes may be stable and appropriate even under such circumstances, and that banks may receive the information required to handle such situations.

Professional consultations on MasterCard MoneySend services (to make sure that money between bank cards is forwarded) also continued, during which the working group asked the NBH’s departments to grant its resolution in multiple issues pertaining to the service’s implementation in Hungary.

To efficiently recognize technical and system problems with bank cards (which are perceptible on a sectorial level as well), we started putting together an emergency e-mail notification list, to aid in the professional process.

In order to aid in the preparation for and prevention of fraud, we consulted and exchanged information with the Europol European Cybercrime Centre’s colleagues on several occasions. They drew the working group’s attention to the increase in online fraud and to geoblocking as an efficient means for prevention.

As part of professional cooperation, this April too, we were able to provide 9 member banks’ bank card experts with the chance to participate for free in the Annual Banking Innovation Forum conference in Vienna.

### **Implementing the Payment Accounts Directive (PAD)**

The MNE has started preparing for the implementation of the Payment Accounts Directive (2014/92/EU). Thus, the ministry asked the Banking Association to reveal the banking industry’s standpoint concerning the following:

- self-regulations concerning basic accounts and when switching bank accounts
- the bank account fee comparison services run by authorities and private enterprises
- the expedient implementation of the directive.

In response to this request, the Banking Association’s bank accounts working group held a meeting to determine its standing with regard to these questions. The Association shared its views with the NME’s professionals through a consultation:

- Regarding bank account switching, the working group voiced that the type of bank switching included in the directive is rare (when clients ask for the exact same bank account service at their new bank, and switch only because it costs a little less). Typically the new service pack is worked out together, based on the client’s situation/profile and the new bank’s available products.
- Almost all banks have a basic account-like service (which is low-cost and diverse), yet very few people choose this type of service. This is mostly due to tax evasion (envelope wages) and to the „bank dodging” mentality of the elderly.
- Out of the currently used bank account comparing services, banks prefer those of private enterprises, since these, as opposed to those of the authorities do not require a separate data reporting (they collect data from banks’ websites instead).

The Banking Association also gave the representatives of the NME and NBH a list of bank account services, which it would recommend for the joint EU list. In the future, the listed services must be provided equally by all banks of the EU, so that their fees can be adequately compared.

### **The EPC Report on Instant Payments**

For its half-year general assembly, the European Payments Council (EPC) finished, discussed, and submitted its study on the conduct model of instant payments, which was approved by the European Retail Payments Board (ERPB), the leading body of the SEPA project. The EPC started the elaboration of its model by looking at the paying parties and the beneficiaries and established those most important features, which the new SEPA model will have to fulfill. Payment service providers might also benefit from the development of a constant, 24-hour so called „24/7/365” service compatible infrastructure within the Single Euro Payments Area, not only because this could reduce the number of costly check payments and cash use, but also because it would provide an even more convenient and effective payment service for payments linked to e-commerce in both peer to peer (P2P) and peer to business (P2B) cash flow. From the possible electronic payment instruments (used by SEPA) – direct debit, card payments, e-money – the *SEPA credit transfer* was deemed most suitable for meeting the needs of the demand side and the supply side, consequently, the EPC will submit this recommendation to the ERPB.

### **Legal and financial completion of the Hungarian SEPA Association’s winding up**

On September 9, 2013 the Hungarian SEPA Association (HSA) made the decision to cease its activities through a winding up. According to the agreement made on December 16, 2013 between the HSA and the Hungarian Banking Association, the HBA will take over the HSA’s ongoing activities and future SEPA-related activities. The winding up process arrived at its final step on June 29, 2015, when the liquidator received the order of the Budapest Metropolitan Court, which ordered the deletion of HSA from the register.

The liquidator acted according to the proposal on division of assets accepted at the HSA’s final plenary and the declaration of the association’s members, and saw to the payment of assets (by then, only monetary), and to the termination of the association’s bank account, moreover, once these actions had been completed to handing over the relevant documentation to the Hungarian Banking Association before the deadline stated in the order. With this last step, the HSA finally ceased its activity (started on May 8, 2008).

## **VIII. Tax and accountancy**

### **Changes in taxation in 2016**

According to the tax changes adopted by the Parliament for next year, the surtax for financial organizations – i.e. the banking surtax in the case of credit institutions – will decrease. In accordance with the Memorandum of Understanding between the government and the European Bank for Reconstruction and Development, the upper tax rate (above HUF 50 billion adjusted total assets) will



decrease from 0.53% to 0.31%, and in 2017 and 2018 it will decrease to 0.21%. In addition to this, the surtax will be determined based on not the 2009, but the 2014 total assets. The banking surtax to be paid cannot be more in 2016-2018 than for 2015. Every credit institution, which increased its corporate loans portfolio from 2009 will receive yearly refunds from its banking surtax. The total of banking surtax refunds cannot be more than HUF 10 billion on national economic level, and to those involved, it will be distributed in proportion to the share from seasonal credit growth, if requested from the tax authority. Growth calculation should be based on the portfolio change between 2009 and two years before the current tax year (e.g. 2014 in 2016). The sum of individual refunds may not be more than 30% of the banking surtax burden.

At the same time, from 2016, the surtax concerning credit institutions will be increased by a new tax item, which will be based on the profit of investment services. According to the legislation, credit institutions, which in the given year provide investment services or any such complementary services, are obliged to pay additional taxes for their net income from these services. The tax base here is not tied to a certain year (as it is for the total assets base), but is always determined based on the data of the current year's account. The legislation amendment, during the parliamentary negotiation phase of the draft bill was adopted with a separate letter of amendment. There was no previous consultation on it with banks, and since it is heavily disadvantageous to them, we voiced our objections to it to the relevant department and initiated its cancellation.

Starting from 2016 the tax rate of personal income tax will be reduced by 1%, becoming 15%, and interest income tax will change accordingly. When calculating tax, in the case of interest income we must take into account which part of the interest belongs to 2016, and which one to before.

In the middle of the year, the Act on Corporate Tax and Dividend Tax was complemented by the deposit to the Quaestor Victims Compensation Fund (Fund) counting in tax accounts. According to the legislation, the credit institutions who are obliged to pay may reduce their tax payment according to their unrecovered deposit. This may be done by deducting the unrecovered deposit part from the following: (i) the corporate tax of the year of the Fund's cessation, if that doesn't provide enough coverage, then (ii) from the banking surtax of the year of cessation, if this also doesn't suffice (iii) the transaction tax of the year of cessation, after this from (iv) the above indicated tax types of affiliates – within the year of the cessation of the Fund, in the previously listed order. In case not yet accounted parts still remain (v) it may be deducted from the following years' taxes, in the previously given order.

### **Automatic Exchange of Tax Information**

On 29th October 2014 Hungary also signed the Multilateral Agreement of the Competent Authorities of OECD countries on the automatic exchange of financial account information. Thereby Hungary undertook to implement the automatic exchange of tax information and to take the required steps in legislation and law enforcement. The Multilateral Agreement refers to the Common Reporting Standard (CRS), and the Guidance Notes thereof. (All documents are available on the OECD website. The Hungarian regulations are expected to be based on these documents.)

According to the Multilateral Agreement, data need to be reported by 2016, which can already be exchanged in the second half of 2017. The planned dates for the exchange of information are contained in Annex F of the Agreement. According to plans, as of September 2017 the exchange of information would be started related to *New Accounts* (financial accounts of individuals, or legal entities opened after 1 January 2016) and to high value individual accounts from the *Existing Accounts*. In addition, from the Existing Accounts, information will be sent as of September 2017, or 2018 related to lower value accounts of individuals and legal entities. Implementing rules will provide more detailed provisions on the above. According to the preliminary schedule, the draft of the bill

announcing the Multilateral Agreement along with the required implementing rules were prepared in the first half of 2015 and are expected to be submitted and adopted in the second half of 2015.

The ongoing processes in OECD are also reflected in the EU changes related to the automatic exchange of tax information. In this context, the transposition of Council Directive 2011/16/EU on the administrative cooperation (DAC) in the field of taxation amended at the end of 2014 and also provisioning the automatic reporting of financial information must be implemented by 2016. It is planned that the provisions of the Multilateral Agreement and the DAC2 implementing rules will be drawn up at the same time both will be taken into consideration.

In its letter to the Ministry for National Economy the Hungarian Banking Association expressed its intention to join the codification process, as in view of the rather close deadline, the IT system development will be greatly facilitated if the final version of the Hungarian legal regulation soon becomes accessible. For this reason the Ministry requested our opinion on the list of products and institutions that could be omitted from the automatic information exchange due to their low tax evasion risk. Taking into consideration the opinion of our member banks, it is recommended that the long-term investment accounts, retirement savings accounts, home savings accounts, food vouchers and the institutions and voluntary funds shall be exempt.

### **Developments related to IFRS conversion**

Government Decree No. 1387/2015. (VI.12.) on the IFRS Conversion was adopted and published in the Hungarian Official Journal. We had sent our clarification recommendations on the detailed draft proposal before and had called attention to the questions to be managed by all means when forming the related legislative background. We had also emphasized our request to ensure the one year transitional grace period not only for the Integration Organization of Cooperative Credit Institutions, but also for other credit institutions having a special position. According to the Government Decision credit institutions must implement IFRS as of 2017 except for the Integration Organization of Cooperative Credit Institutions and some other smaller credit institutions. Entities granted the transitional grace period shall implement the conversion as of 1 January 2018.

Detailed regulations for the IFRS conversion shall be formed during summer and the Government set the deadline for 30 September 2015.

Following the publishing of the Government Decision - as requested by the Ministry for National Economy - we prepared a proposal for the following definition of "Smaller credit institutions" referred to under Article 2. bb) of the Decision: a credit institution reorganized as a bank from a cooperative credit institution, but not involved in the Integration of Cooperative Credit Institutions, and specialized credit institutions. As a justification to our proposal we explained that the recent transformation of said institutions and their special activities in financial services would require a 1-year grace period mainly for the resetting of technology systems. Ensuring a one-year transitional period would not distort the conditions of market competition and it is a foreseeable period.

### **Amendments of the Act on Accounting**

On 23rd June the Parliament adopted the amendments of Act C of 2000 on Accounting, which will enter into force as of 2016 serving the compliance with EU Directives and the reduction of administrative burdens on smaller institutions and businesses.

Among others, the amendment set forth that the category of extraordinary items would be deleted and such items are to be listed under profit on financial transactions. Rules pertaining to the accounting of dividends and goodwill are also changing and the profit or loss for the year category

will be called After tax profit. Amendments also affect the structure of the P&L Statement and the content of the Notes to the Financial Statements.

## **IX. Developments within the Banking Association**

### **Program for the development of financial awareness and financial literacy**

#### *The European Money Week – a summary of the current events of the program series*

The European Money Week program series continued with interactive elements, tenders and games. The main scope of these was to deepen the knowledge acquired during the thematic week in March and to find a playful way to reinforce it. The Ministry of Human Capacities provided professional support for the programs, and the head of the jury was Gáborné Pölöskei, the ministry's Deputy Secretary of State.

One of the games was *Pénz7 kalandjáték (Money Week Adventure)* on Facebook, a game for high school students, with almost 3300 players registered from April to May. The game gave players the chance to develop their financial skills through simple financial quizzes and interesting tasks, collecting points in the process. They also had the option of donating their earned points to a school of their choosing, allowing competition to develop between schools, in addition to individual players.

The *Money Week School Competition (Pénz7 iskolai pályázat)* also ended successfully: three schools (the Grassalkovich Kétnyelvű Általános Iskola from Vecsés, the József Attila Gimnázium és Szakképző Iskola from Polgár, and the Kozmutza Flóra Óvoda, Általános Iskola, Szakiskola, Diákotthon és Gyermekotthon from Hódmezővásárhely) won nearly HUF 1 million through the financial literacy competition conducted by the Hungarian Banking Association and the Money Compass Foundation (Pénziránytű Alapítvány) out of more than 20 schools that took part. The aim of the competition was to have schools develop their own ideas about the events they themselves would organize for the European Money Week.

The European Money Week of 2015 ended with the *BankVelem PénzOkos Kupa*, the final round of the nationwide financial knowledge competition. Over 900 teams from 200 schools registered on the competition's website, filling out, together with preparation quizzes, over 7000 tests. Teams went through two online rounds, from which those 10 that achieved the best results were chosen to be finalists.

#### *Programs that the HBA participated in*

The "Számoljunk a jövővel!" (Let's Count the Future!) roadshow, organized by the MNE and the Ministry of Human Capacities, started with Mihány Varga's (the Minister for National Economy) opening ceremony at the end of Spring. The roadshow was organized to promote financial literacy among the new generation, and to boost economic knowledge in public education, and to motivate, encourage teachers to include financial and entrepreneurial studies in their local curricula. The European Money Week program was also part of the roadshow in the form of practical presentations.

The HBA also provided active coordination for the financial literacy program between the banking sector and the ministries through the Ifjúsági Szakmai Egyeztető Fórum or ISZEF (Junior Professional Forum for Cooperation).

### **Previously not mentioned working committees, working groups**

#### *Data protection working committee*

At the Data Protection Working group's April meeting, we analyzed the claims management investigations and decisions made by the Hungarian National Authority for Data Protection and Freedom of Information (NAIH) from the banks' point of view. In addition, we listened to presentations from the data protection authority's registry's, and from the internal data protection records data processors' point of view.

Several members of the working committee participated in the national conference for internal data protection supervisors organized by NAIH.

The working committee held a restricted session in June of 2015, where it approved the letter to be sent to Attila Péterfalvi (president of NAIH), which provided its opinion on the proposed NAIH recommendation concerning data protection information. A draft is being created for the consultation with the Authority, which contains the structure, contents, and other topicalities of the bank data protection information prospectus.

The working committee finds it necessary to send out and provide comments for the data protection law's modification, published on the MJ's website (which was in the meantime sent out to the National Assembly under number T/5404).

#### *The agricultural working group*

The agricultural working group invited the prime ministry's representative to hold an informative presentation on the status and changes of the Rural Development Program, the date of adoption by the European Commission, possible introduction of tenders, financial allocation, and the changes in the conditions for the agri-environmental aid. The presentation was followed by a consultation and a thorough discussion of professional recommendations.

The agricultural working group also held a session on the introduction of the newly guaranteed Growth Scheme Plus, and discussed the relevant agricultural issues. Following the session we consulted with the concerned (mainly specialized administrative) organizations several times. The vast majority of responses to the questions posed by member organizations were satisfactory.

#### *The EXIM sub-working group*

The EXIM sub-working group held multiple sessions on refinance products. Based on the observations made during these sessions they modified the refinancing framework contracts, highlighting that the 2-year scheme. The sub-working group looked over the product concept and the relevant contract models of the recently introduced Credit Program for the Improvement of Competitiveness (national current assets and national investment loans). In addition, it introduced the tools to decrease debit limit in credit institutions. Working group members disputed the conditions and consequences of fund use – granted by the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB) – associated with the EXIM bank's loans. During the

sessions representatives of EXIM regularly provided information on new progress in refinancing, and held presentations on the topic of ex-post financing, especially concerning the opening-up of the representative network, and future plans.

#### *New leader elected within the Compliance working group*

Since Gábor Milakovszky (Raiffeisen Bank) left, a new leader was elected for his position: the working group elected Gábor Sudár, the director of the compliance department at OTP Bank, as its leader for the next 3 years.

### **The Supervisory Board's inaugural meeting and adoption of its Rules of Procedure**

This year's annual general meeting – in compliance with the new Civil Code – with the modification of the Charter established and elected the Association's new organizational body, the Supervisory Board (SB). The new members of the SB (Tibor Gáspár, President, Raiffeisen Bank; Erzsébet Páli, Vice-President, FHB Bank; Bálint Csere, OTP Bank, Zoltán Fényi, Sberbank; and Marianna Sándor, K&H Bank) were chosen from legal, accounts, and taxation working group experts, to serve for the next 3 years. The five-member SB makes sure that the Association is run according to legislation, the Charter and internal regulations.

The SB held its first session in June, in which it adopted its Rules of Procedure.

### **Expiration of the Ethical Committee's mandate**

Since the mandate of members of the Hungarian Banking Association's Ethical Committee expired, it became necessary to renew the committee. We asked our member institutions to provide one delegate each (for 3 years), indicating their field of expertise.

### **Communications**

The Hungarian Banking Association continued to receive intense media attention in the second quarter of 2015, having to respond to constant media requests. During this 3-month period we had 730 online media appearances, followed by around 370 in print media, and roughly 300 appearances in electronic media. Throughout the entire quarter, we had over 1400 appearances and mentions in the Hungarian media, through which we communicated the banking sector's standpoint to the media and to the public.

Through the quarter's press release, we informed the media about the Banking Association's annual general meeting, which was held on April 24th. We introduced our new Board member to the public and to the members of the supervisory board. In addition, we published the names of those professionals, who won the Hungarian Banking Association's Golden Beehive Award for their outstanding contributions to the development and operation of credit institutions.

The settlement process of consumer credit also emerged as a highly important topic during Q2. The media showed intense interest: we granted them up-to-date information on the topic through regular interviews, speeches, and a press meeting (organized with the help of the NBH's consumer protection department).

Communication of the European Money Week's events and competitions also required special care.

## **APPENDIX - INTERNATIONAL OUTLOOK:REGULATION AND SUPERVISION**

### ***I Global Regulation***

#### **I.1 Financial Stability Board (FSB<sup>5</sup>)**

##### **I. 1.1 Report to the G20 Finance Ministers and Central Bank Governors on Financial Reforms**

As established by Mark Carney (FSB Chairman) in his April report, the FSB has been progressing towards the priorities set in February 2015 in Istanbul, such as (i) full, consistent and prompt implementation of agreed reforms, (ii) finalising the design of remaining post-crisis reforms, and (iii) addressing new risks and vulnerabilities.

The FSB will draw up and publish for the Antalya Summit of the G20 in November its first annual report on the implementation of the regulatory reforms and their effects. The report will present progress, good practice and shortcomings, and evaluate where there are either inconsistencies in the implementation of reforms or unintended consequences that need to be addressed.

To complete the regulatory reforms, the rules aimed at handling the problem of too-big-to-fail (TBTF) are to be fully implemented, and as part of this process, the total loss absorbing capacity (TLAC<sup>6</sup>) standards are to be finalised by the Antalya Summit. (In a document published in this subject matter by the FSB early June, the proposed amendments to be considered in connection with the consultations are divided into two categories: the FSB will make a proposal for addressing the ones falling into the first category, while those falling into the second category are to be considered in light of the impact assessment findings.) The rules relating to the cross-border recognition of resolution actions (temporary suspension of the termination of financial contracts) are also to be finalized. As far as non-bank institutions are concerned, higher loss absorbency requirements for global systemically important insurers are also to be finalised, the methodologies to identify non-bank, non-insurer global systemically important institutions are to be defined; the key elements of central counterparties (CCPs) recovery and resolution plans are to be laid down, and comprehensive trade data reporting is to be introduced with a view to increasing the safety of OTC markets.

When addressing new risks and vulnerabilities, the FSB's attention is focused on risks stemming from market-based finance as well as on misconduct risks, i.e. risks that have the potential to cause systemic risks. To address the vulnerabilities in capital market and asset management activities, the FSB will launch two linked projects. The first will examine the likely near-term risk channels and the options that currently exist for addressing these. The second will examine in light of the longer-term development of capital markets whether additional policy tools are to be applied to the asset managers' activities with the aim of mitigating systemic risks. As far as misconduct risks are concerned, the FSB has adopted a work plan that will examine:

- whether the reforms to incentives are having sufficient effect on reducing misconduct or whether additional measures are needed;
- the progress of ongoing reforms to benchmarks, and whether further steps are needed to improve global standards of conduct in the fixed income, commodities and currency markets; and

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<sup>5</sup>The highest international financial regulatory body

<sup>6</sup> The definition of TLAC essentially corresponds to the Minimum Requirement for own funds and Eligible Liabilities (MREL) set for all banks in the EU Bank Recovery and Resolution Directive (BRRD).

- together with the World Bank and other relevant bodies, the extent of potential withdrawal from correspondent banking, its implications for financial exclusion, as well as possible steps to address this issue.

### **I. 1.2 Peer review on resolution regimes**

The Financial Stability Board launched in April its second peer review on resolution regimes in FSB member jurisdictions. The objective of the review is to examine the (possible range and nature of) resolution powers that are available in FSB jurisdictions. A questionnaire to collect information has been distributed to the national authorities but the FSB has invited feedbacks from other stakeholders (financial institutions, industry and consumer associations) as well. The peer review based on the responses received by the deadline of 8 May is to be published in early 2016.

Regarding the resolution regimes initiated by international regulatory measures, the FSB seeks answers to the following questions:

- the adequacy and nature of national regulation regimes for banks, including the institutional frameworks set up for resolution authorities and the role of the court in the resolution process;
- the scope and design of regulations by the authorities for launching the resolution process and for the scope of powers related to bank resolution;
- the factors that may affect the way how that resolution powers may be exercised in the various resolution regimes and their implications on the effectiveness of those powers;
- experiences and challenges related to recovery and resolution planning and resolvability assessments.

#### **1.1.3 Peer review on supervisory frameworks for SIBs<sup>7</sup>**

The FSB published in May a peer review on supervisory frameworks for systemically important banks. It was found that the national authorities have made significant progress towards enhancing the efficacy of supervision in their institutional frameworks. They are using a broader and more sophisticated set of supervisory tools, leading to a more forward-looking supervisory approach as well as to the recognition of both current and emerging risks. The scope of supervision has been expanded to incorporate macroprudential and resolvability aspects. The dialogue between supervisors and the board and senior management of the institutions subject to supervision has improved in terms of both frequency and management level. Corporate governance as well as recovery and resolution planning have become the centre of focus in many jurisdictions.

The 13 G-SIBs<sup>8</sup> surveyed in the framework of the peer review also noticed an increase in the intensity of supervision, with particular respect to capital adequacy and liquidity, the number and depth of supervisory reviews, and data requests. The supervisory measures have also strengthened in response to the findings of the supervisory reviews. At the same time, the G-SIBs would expect a more open and constructive application of the supervisory dialogue.

It is of special importance to strengthen cross-border supervisory cooperation based on mutual trust in good times and even more so in bad times. Effectiveness can be improved by establishing and implementing clear and transparent supervisory strategies and priorities. One of the highest challenges is to effectively execute the large-scale regulatory and supervisory changes as well as to provide for adequate budgetary funds and skilled, capable and experienced workforce.

It is recommended in the peer review that the supervisory authorities clearly define their own supervisory strategy and priorities; increase their dialogue with the institutions supervised; urge the banks to improve their IT and management information systems; and ensure that data requests are

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<sup>7</sup> Systemically important banks

<sup>8</sup> Global systemically important banks

performed purposefully and in a coordinated way between the home and host supervisory authorities.

## **I.2 Basel Committee on Banking Supervision**

### **I.2.1 Eighth progress report on adoption of the Basel regulatory framework**

As part of its RCAP<sup>9</sup>, the Basel Committee on Banking Supervision provided information for the eighth time in April on the implementation of Basel II, Basel 2.5 and Basel III standards. The report is based on the information supplied by the national authorities concerned on the status of adoption of the risk-based capital standards, the standards for global and domestic systemically important banks, the leverage ratio, and the liquidity coverage ratio (LCR). The report assesses the consistency of adoption of the above standards in 19 member jurisdictions. The regulations have been fully introduced in the great majority of the member jurisdictions, with some delay recorded in the USA and Europe regarding the LCR, i.e. there is some delay in setting the disclosure requirements of the LCR. The US authorities are expected to publish their requirements still in 2015, while the European Banking Authority has promised to draw up its standard by April 2016.

### **I.2.2 Developments in credit risk management across sectors: current practices and recommendations**

The document published by the Joint Forum<sup>10</sup> in June addresses the supervisory framework related to credit risk management in the financial sector (banks, investment service providers and insurance companies), the practices followed by these firms, as well as the regulation and supervision of credit risk management. The report is based on a global survey including 15 supervisors and 23 market actors (in Europe, North America and Asia). (The report is an update of a document prepared by the Joint Forum in 2006, which is used as a benchmark for presenting the changes.)

In light of the findings of the survey, the report makes the following recommendations for consideration by the supervisory authorities:

1. Supervisors should be cautious against over-reliance on internal models for credit risk management and regulatory capital. Where possible, simple measures should be created to complete the sophisticated models.
2. With the current low interest rate environment possibly generating a “search for yield” through a variety of mechanisms, supervisors should be cognizant of the growth of such risk-taking behaviours and the resulting need to have appropriate risk management processes in place.
3. Furthermore, supervisors should be aware of, and able to appropriately respond to, the growing need for high-quality liquid collateral to meet margin requirements for OTC derivatives markets. The supervisory bodies should consider taking appropriate steps to promote the monitoring and evaluation of the availability of such collateral, while also considering the objective of reducing systemic risk and promoting the involvement of central counterparties.
4. Supervisors should consider whether firms are accurately capturing central counterparty exposures as part of their credit risk management.

### **I.2.3 Interest rate risk in the banking book (IRRBB)**

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<sup>9</sup> Regulatory Consistency Assessment Programme

<sup>10</sup> The Joint Forum comprises the global supervisory bodies of the financial sector: BCBS, IOSCO and IAIS.



The consultative document discussing the management of interest rate risk in the banking book is aimed at completing and superseding the Committee's guidance set out in the 2004 "*Principles for the management and supervision of interest rate risk.*" The supervision of the regulatory treatment of interest rate risk in the banking book has been motivated by two factors. First, to help ensure that banks have appropriate capital to cover potential losses from exposures to changes in interest rates. This is particularly important in the light of the current extraordinarily low interest rates in many jurisdictions. Second, to limit the possibility of capital arbitrage between the banking book and the trading book as well as between banking book portfolios that are subject to different accounting treatments. (This is particularly important given the ongoing fundamental review of trading book regulations.)

The consultative document offers two options for the regulatory treatment of IRRBB: a standardised Pillar 1 approach for calculating minimum capital requirements, which has the benefit of growing market confidence and creating a level playing field by improving consistency, transparency and comparability. The Pillar 2 option, which includes requirements for the disclosure of interest rate risk, is based on Pillar 1 while it takes more into the consideration the market conditions and risk management practices differing across the individual jurisdictions.

The Committee has also formulated 6 specific questions in the consultative document, to which they expect responses by 11 September.

#### **1.2.4 Further documents**

In addition to the above, a statement on *FX best market practices* was published by the Chairman of the Economic Consultative Committee and the Global Economy Meeting of the BCBS after a session of these bodies in May. The BIS governors have agreed to set up a working group by the name of "Market Committee" to take the steps necessary to facilitating the establishment of global code of conduct standards and principles on foreign exchange markets. The group provides inputs to the broader-scale efforts aimed at elaborating the code of conducts coordinated by the FSB.

In June, the Committee published the Net Stable Funding Ratio (*NSFR*) disclosure standard, which – similar to the disclosure standards of the LCR – shall guarantee the usefulness and consistency of the data reported by the relevant institutions. The disclosure obligations related to the NSFR shall be met as of January 2018.

## ***II European Regulation***

### **II.1 Communication from the Commission to the European Parliament, the Council, and the Economic and Social Committee on the Agenda for Better Regulation**

The European Commission adopted on 19 May an agenda for better regulation (*Better Regulation for Better Results – An EU Agenda*). The list of tasks contains, among other things, the revision of the *IIA*<sup>11</sup> by and between the Commission, the Parliament and the Council, dated 2003, from times before adopting the Lisbon Agreement. According to the program:

**1. In order to achieve better results, it is necessary to change the work on an EU level**, i.e. not only what the EU does but also how the work is accomplished. The Commission also concentrates on the most important issue, setting 23 new issues as being of major importance in accordance with the political priorities. It is vitally important that every single measure introduced by the EU rulebooks shall comply with the requirements of modernity, efficiency, proportionality and operability,

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<sup>11</sup> Inter-institutional Agreement

furthermore, that they are as simple and easy to apply as possible, while ensuring safety and predictability, and avoiding unnecessary extra burdens. At the same time, the Commission aims to rely on the impact assessments and the Regulatory Fitness Programme (REFIT) instituted so far.

**2. The consistent enforcement of *openness and transparency* assumes *more consultations and enhanced attention*.** From the first idea to the adoption of the legislation in process, the Commission has intended to listen more closely to citizens and stakeholders. Building on the existing minimum standards for consultations, the Commission's new *Better Regulation Guidelines* strengthens the commitment to consultations that are of high quality and transparent, reach all relevant stakeholders, and lead to making sound decisions. In the case of the new proposals, public consultations will be opened for a period of twelve weeks, and meanwhile the "fitness checks" of the existing legal provisions will be carried out, while the national parliaments have the opportunity to provide reasoned opinions on subsidiarity, and feedbacks are also invited within a deadline of eight weeks. At the same time, public consultations will be offered for four weeks on important implementing acts which are based on power of authority to vote.

**3. *Better tools for better action and for the implementation of better policies*.** The *achievement of the objectives set* can only be ensured by better regulation and a more balanced agenda, setting clear targets. Particular attention shall be paid to the impacts on SMEs having regard to the fact that small enterprises are not able to meet red-tape rules that are too bureaucratic and burdensome for them. ***The EU institutions (Parliament, Council, and Member States) to share commitment to better regulations.*** In the past, the European Parliament and the Council have at times been hesitant to agree on measures that would increase their administrative burdens, and the Member States have often evaded the strict application of EU legislation. By now, the Commission has become determined to not only adopt but also strictly implement the principles of better regulation. The Commission is, however, not able to implement the better regulation agenda by itself, to which end effective cooperation by and between all EU institutions, the Member States and the social partners is needed.

**4. *Refreshing the existing stock of legislation*** is another basic requirement to be ensured by the REFIT programme. The REFIT programme may only function well if it is targeted, quantitative, inclusive, and embedded in political decision-making. ***As far as the spirit of inclusion is concerned***, the Commission actively seeks stakeholders to provide input to the improvement of EU regulations. A new "REFIT Platform" is also to be established and chaired by the First Vice-President of the Commission.

The Parliament, the Commission and the leaders of the retiring Lithuanian chairmanship as well as those of Luxembourg, to take the chair as of the second half of the year, held their initial meeting on 25 June 2015. The Chair announced on 30 June its readiness to amend the IIA.

## **II.2 Completing Europe's Economic and Monetary Union**

As emphasised at the Euro Summit of October 2014, "closer coordination of economic policies is essential to ensure the smooth functioning of the Economic and Monetary Union". To this end, the President of the European Commission, in close cooperation with the President of the Euro Summit, the President of the Eurogroup, the President of the European Central Bank, and the President of the European Parliament prepared a report, which was published on 22 June. The report presents the nature of a "*deep, genuine and fair economic and monetary union*", which is to be organised in two stages. In Stage, which lasts from 1 July 2015 to 30 June 2017 and is referred to as "*deepening by doing*", the EU institutions and euro area Member States will build on existing instruments and make

the best possible use of the existing Treaties. Important steps are to be taken already in this stage to create the economic, financial and fiscal union.

To create an **economic union**, it is essential to enhance the convergence of the euro area Member States and to give a new boost to growth and jobs. Immediate steps to be taken:

- creation of a euro area system of competitiveness authorities;
- strengthened implementation of the Macroeconomic Imbalance Procedure;
- greater focus on employment and social performance; and
- stronger coordination of economic policies within a revamped European Semester.

The development of a **financial union** requires, first of all, to complete the Banking Union, including the following major elements:

- setting up a bridge financing mechanism for the SRF<sup>12</sup>;
- implementing concrete steps towards the common backstop to the SRF;
- agreeing on a common Deposit Insurance Scheme;
- improving the effectiveness of the instrument for direct bank recapitalisation in the European Stability Mechanism (ESM).

It is a further essential element of completing the financial union to launch the capital markets union and to reinforce the European Systemic Risk Board.

In the next two years ahead of us, it is of primary importance for a **fiscal union** to create a new advisory **European Fiscal Board**, which would provide a public and independent assessment, at European level, of how budgets – and their execution – perform against the economic objectives and recommendations set out in the EU fiscal framework.

**Democratic accountability, legitimacy and institutional strengthening** (revamping the European Semester; strengthening parliamentary control as part of the European Semester; increasing the level of cooperation between the European Parliament and national parliaments; reinforcing the steer of the Eurogroup, taking steps towards a consolidated external representation of the euro area; integrating into the framework of EU law the Treaty on Stability, Coordination and Governance, the relevant parts of the Euro Plus Pact, and the intergovernmental agreement on the Single Resolution Fund) are basic to achieving the above objectives on a political level.

The architecture of the economic and monetary union should be completed latest by 2025. The economic union is to be completed by formalising and making binding the convergence process, while the fiscal union is to be completed by setting up a fiscal stabilisation function. (Convergence towards similarly resilient national economic structures would be a precondition to access the fiscal mechanism.) For democratic accountability, legitimacy and institutional strengthening, integrating the European Stability Mechanism into the EU law framework and setting up a euro area treasury accountable at European level are of key importance.

## II.3 Single Supervisory Mechanism(SSM)

### II.3.1 Presentation of the SSM Report by the Chair of the SSM to the European Parliament

Under Council Regulation No 1024/2013 related to setting up the SSM, the Chair of the SSM must regularly appear before the European Parliament for public hearing. Danièle Nouy presented her most recent report to the Economic and Monetary Affairs Committee on 25 June 2015. In her introductory remarks, she gave a round-up of the situation in the banking sector and then she

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<sup>12</sup> Single Resolution Fund

addressed the issues of capital requirements for banks, the SREP<sup>13</sup>, the AnaCredit<sup>14</sup> Project, and their cooperation with the SRB<sup>15</sup>.

According to her report, the euro area banks have made significant progress in tackling the legacy issues from the financial crisis, while adapting to an evolving regulatory and operating environment. The comprehensive assessment (AQR<sup>16</sup>) has brought much-needed transparency and showed that the banking sector is well equipped to withstand the most plausible adverse shocks. She mentioned two remaining challenges, such as **weak profitability**, which is due to the uneven economic recovery as well as to the low interest rate environment, and the **large stock of legacy problem assets**, which adversely affects banks' lending capacity. Weak profitability and the large stock of legacy problem assets continue to weigh on banks' capacity to simultaneously build up capital buffers and provide credit to the real economy.

Regarding the operation of the Single Supervisory Mechanism, the Chair of the SSM explained that the development of a common supervisory culture takes time and much daily effort in order to achieve the desired result over time. The operation of the SSM is adjusted, as becoming necessary, to the changing environment, for instance to meet the TLAC/MREL requirements set in the Bank Recovery and Resolution Directive. Recalling the issue of the comprehensive assessment, she emphasised that the majority of banks with capital shortfalls had already solved their capital shortfalls until November 2014 and the remaining banks also covered their capital shortfalls within the required deadline (six months or nine months, respectively). The SSM pays particular attention to ensuring a consistent application of the SREP methodology at the banks/groups under the direct supervision of the SSM. In order to secure a level playing field, the SSM aims to ensure that the Single Rulebook for banks shall mean the same regulatory treatment not only in its name but also in fact, and to this end, subject to the relevant legal framework, the national discretions and options granted in the CRR/CRD4 package are to be reduced. Since the European Central Bank is the competent authority of the SSM responsible for banks, it takes supervisory decisions in the best interest of the Banking Union.

Regarding the AnaCredit, she emphasised that this project was initiated prior to the launch of the SSM, keeping in mind the need to minimise the reporting burden. The dataset containing individual credit data, while meeting the information requirements of monetary policy, statistics, financial stability and research, is very useful for the performance of supervisory functions as well.

The SSM aims to cooperate closely with the Single Resolution Board to the benefit of both organisations. The rules of cooperation will be laid down in a Memorandum of Understanding (MoU), which will describe the information flow between the two authorities.

Finally, the Chair of the SSM said that they are looking forward to the conclusion of the legislative process on bank structural reform. Regardless of the actual outcome of the process, it is very important to lift the current uncertainty, which will allow banks to develop their longer-term business model.

### II.3.2 The SSM Strategy Group of the European Banking Federation (EBF)

The SSM Strategy Group of the European Banking Federation, bearing in mind the 2015 priorities of the ECB (effectiveness of credit risk management, viability of business models and profitability, governance at the institutional level, quality of management information, and IT risks) has identified the following key issues, setting up casual sub-working groups or task forces to address these issues:

- Supervisory Review and Evaluation Process (SREP),
- National discretions,
- Supervisory review of internal models,

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<sup>13</sup> Supervisory Review and Evaluation Process

<sup>14</sup> Analytical Credit Dataset

<sup>15</sup> Single Resolution Board

<sup>16</sup> Asset Quality Review

- Joint Supervisory Teams (JSTs).

The National Discretions Task Force (NDF) has been set up to identify, and make proposals for the possible treatment of, the national discretions granted when introducing the CRR/CRD4 regulation. The EBF has consistently supported a reduction in the number of national discretions (possibility of derogation from the single regulation) in order to ensure the same conditions for competition, exclude regulatory arbitrage, and reduce the operational risks stemming from the complexity of the existing legal framework. Under this mandate, the NDF has drawn up a constructive report and developed several proposals regarding the national discretions.

## **II.4 Recovery and resolution**

### **II.4.1 Implementation of the Bank Recovery and Resolution Directive (BRRD)**

The European Commission has requested Bulgaria, the Czech Republic, France, Italy, Lithuania, Luxembourg, the Netherlands, Malta, Poland, Romania, and Sweden to fully implement the Bank Recovery and Resolution Directive. These eleven countries have failed to keep the deadline of 31 December 2014 for the implementation of the Directive in national law. The Commission may decide to refer the case to the EU Court of Justice if the Member States concerned fail to fully implement the Directive in two months following the receipt of the Commission's request taking the form of a reasoned opinion.

### **II.4.2 Developments related to the Single Resolution Board (SRB)**

The SRB started its operation as an independent EU agency on 1 January 2015. The appointment of the Chair and five further members of the Board was approved by the European Parliament at its session of 16 December 2014. (The appointment of the Chair of the Board Elke König is for three years, renewable for a further period of five years, while the Vice-Chair and the further members of the Board are appointed for five years, and their mandate is not renewable.) On 25 March the SRB published its draft annual budget plan for 2015. The total expenditures are estimated to amount to EUR 22 million, 55% of which are related to staff. All expenditure is fully covered by contributions from the banking industry. The SRB aims to employ 122 staff by the end of 2015.

The SRB is the central decision-making body in the network of designated national resolution authorities. It is empowered to apply, as of January 2016, the full set of resolution tools (sale of business, bridge institution, asset separation, and bail-in) according to the BRRD. The SRB is currently in the process of establishing a constructive cooperation with national resolution authorities and collecting information for the elaboration of resolution planning and resolvability assessment. (The resolution authorities are to be set up from scratch on the level of both the Member States and the Banking Union.) The SRB will start to operate with full powers as of 1 January 2016, provided that until then the IGA<sup>17</sup> supplementing the SRM<sup>18</sup> regulation has been ratified in all Member States of the Banking Union, which is a precondition for creating the Single Resolution Fund as well. (Only Latvia and Slovakia met this condition until mid-June.)

## **II.5 Capital Markets Union (CMU)**

### *Position of the European Banking Federation Regarding the Green Paper*

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<sup>17</sup> Intergovernmental Agreement

<sup>18</sup> Single Resolution Mechanism

Regarding the European Commission's Green Paper<sup>19</sup> on the Capital Markets Union, submitted for consultation in February, the European Banking Federation noted that integrated European capital markets can foster sustainable economic growth. Europe needs efficient and dynamic capital markets alongside a strong and stable banking sector. Stronger capital markets can potentially unlock more investments for companies.

The EBF added the following key points to its response to the Green Paper:

1. Ensure a level playing-field between markets and between EU and non-EU actors. (It is necessary to ensure that the regulation does not impede cross-border activity or distort competition.)
2. A tailored approach is needed. Proportionality must be a key principle in developing the CMU. Particular consideration should be given to preserving innovation in the financial services sector as well as to the specific needs of bond market actors. The EBF urges the Commission to draw back the forcing of a high degree of standardisation and harmonisation of bond markets.
3. The financial markets regulatory framework and the completion of the Single Rulebook should be reviewed systematically and in detail. (This means a comprehensive review of the whole set of rules.)
4. The CMU should promote market-led standards and best practices.
5. The CMU should emphasise the importance of liquidity and market-making.
6. Revised rules for securitisation
7. Review of the Prospectus Directive
8. Removal of existing tax barriers
9. Cross-border shareholder tax transparency
10. Improvement of financial education and knowledge

The EBF identified the following areas to be prioritised for short-term urgent action:

- Restoring confidence in the capital markets;
- Better regulation in financial services;
- Creation of streamlined regulatory reporting channels;
- Creation of a single generic EU-recognition scheme for assessing EU equivalence of third countries;
- Adjustment of the current client classification in MIFID II/MIFIR.

#### *European Council Conclusions on a Capital Markets Union*

In its resolution (conclusions) released in the middle of June 2015, the European Council welcomed the initiative of building a CMU, while highlighting – among other factors – the following issues to be resolved in this context:

- diversifying and broadening sources of financing for European companies, especially SMEs, by creating effective conditions for healthy competition between banks and non-banks;
- strengthening the equity culture and encouraging long-term investment in companies rather than relying excessively on debt;
- improving bank financing and developing non-bank financing opportunities for all SMEs;
- increasing retail investment and ensuring robust investor and consumer protection;
- enhancing access to intermediated financing;
- respecting the principles of proportionality and subsidiarity in any future related initiative, without the new proposals putting financial market stability at risk;
- the CMU to encompass all 28 Member States, while taking account of the various degrees of development of capital markets and their different levels of size and integration;

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<sup>19</sup> See our Quarter 1 2015 Report

- the new investment funds (EFSI<sup>20</sup>, ELTIFs<sup>21</sup>) to be assigned important catalysing role in creating the CMU;
- addressing the issues limiting the movement of capital in Europe to ensure that Europe's capital markets can compete on a fair basis with other economic areas.

As short-term priorities for action, the Council noted, in addition to creating a framework for simple, transparent and standardised securitisation, the importance of rendering easier the access to credit information and the requirements related to the prospectus (bearing in mind the possibilities of SMEs as well). Stimulating and matching the supply-side and the demand-side of finance are medium to long-term priorities for action. The Council expects the Commission to follow an ambitious approach and start work immediately. The action plan for building the CMU is to be elaborated by September 2015.

#### *European Parliament Resolution on building a Capital Markets Union*

The European Parliament supported with a great majority of votes (552 votes in favour, 111 against, and 32 abstentions) the initiative for building a Capital Markets Union. According to the resolution, the EP

- intends to follow a genuine European approach to building a CMU, ensuring equal competitive conditions;
- urges to apply the building blocks model (step by step approach);
- intends to improve access by SMEs to the capital markets, offering an adequate alternative to bank credit;
- intends to create a coherent European regulatory environment for capital markets and proposes to review the rules that represent excessive administrative burdens.

The Council finds it necessary to address cross-border insolvency, with particular regard to central counterparties. In addition, the quality and comparability of financial information need to be increased. The Commission is called on to speed up its work on the action plan for building a CMU and the legislative work necessary thereto in order to achieve the objective of a fully integrated single EU Capital Markets Union by the end of 2018.

The Capital Markets Union is closely related to the Investment Plan for Europe as well as to creating the European Fund for Strategic Investments (EFSI). In order that the EFSI can effectively support investments, the European Union provides guarantee in an amount of EUR 16 billion, which is completed with EUR 5 billion by the European Investment Bank. Between 2015 and 2017, the EFSI is expected to generate investments in a total value of EUR 315 billion in the European Union.

## **II.6 Banking Structural Reform (BSR)**

### *Failed vote in European Parliament*

The Economic and Monetary Affairs Committee (ECON) of the EP voted on 26 May on the structural reforms that seek to split the largest European banks. The parliamentary rapporteur and the shadow rapporteur both maintained their respective contrary approaches, i.e. risk based assessment with a flexible supervisory toolkit vs size based triggering with automatic separation. The rapporteur was unable to find a compromise on the proposal, and therefore a "smorgasbord" text was put to vote, which contained a random selection of amendments formerly put onto the table, without the final text showing any coherence. Finally, the report was rejected by the ECON, bringing the BSR back to

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<sup>20</sup> European Fund for Strategic Investment

<sup>21</sup> European Long-Term Investment Funds

square one. The competent negotiating team was commissioned to draft a new schedule so that an agreement can be reached during the summer and the triologue can start in autumn.

### *EBF urges rethink of BSR<sup>22</sup>*

After the failed vote, the EBF warned the parties involved that there is no clear consensus on what is right for large universal banks in Europe. The European banking sector must face the uncertainty due to the structural reforms at a moment when Europe needs to revitalise economic growth and create a genuine Capital Markets Union. The EBF urges policy makers to rethink their priorities as their current proposal could lead to a capital expenditure of almost EUR 100 billion and a loss in European investment capacity equal to 5 per cent. Any reform of the banking sector needs to take into view the new, significantly different regulatory and economic environment.

### *Council Agreement*

After the failed vote in the European Parliament, the Latvian Presidency took the lead in finalising the BSR. The Member States reached an agreement on the substantial issues of the reform at their Luxembourg session on 19 June. Under the compromise, the banks affected by the BSR are allocated into two tiers with regard to their respective trading activities. Banks allocated to either of these tiers will be subjected to differentiated reporting requirements, risk assessment and subsequent supervisory actions. G-SIBs and banks with over EUR 100 billion of trading activities will be placed in Tier 2 to undergo an even more granular risk assessment. If the granular assessment identifies excessive risk, supervisory action follows in a way that is proportionate to the risk identified. To this end while the possibility to separate excessively risky activities remains, supervisors can also opt to increase own funds requirements or to take other prudential measures. Instead of a ban on proprietary trading as proposed originally by the Commission, the Council opts for a mandatory separation of proprietary trading activity. Acknowledging its beneficial function, specific rules have been laid down for market making, which has been defined as an allowed activity.

After reaching this compromise in the Council, Jonathan Hill, Commissioner for Financial Stability, Financial Services and Capital Markets Union expressed his hope that the BSR rules will be adopted still this year.

## **II.7 European Banking Authority (EBA)**

### **II.7.1 EBA's key areas of focus for 2015**

In order to support and protect the stability and integrity of the European banking sector, EBA has prepared an intensive work programme for 2015. Among the areas of focus are risk weighted assets, regulatory calibration on leverage ratio and net stable funding ratio, regulatory monitoring of own funds instruments, remuneration and national options and discretions. The EBA will finalise a number of legislative instruments including the Deposit Guarantee Scheme and establishment of resolution authorities. Regulatory developments will include investment firms, a report on small and medium sized enterprises, facilitating an effective dialogue between authorities, supervised institutions and auditors. The EBA will issue guidelines regarding shadow banking and develop draft regulatory technical standards (RTS) concerning consolidation of prudential regulation. The EBA will enhance supervisory convergence (with special attention to payment services), upgrade risk analysis tools and increase transparency. 2015 marks the first year of BRRD implementation and therefore it will be an intense year for resolution and supervisory authorities and for the EBA to support the

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<sup>22</sup> Banking Structural Reform



implementation of the new recovery and resolution framework. In 2015 no EU-wide stress test will be carried out and the test for 2016 will be prepared and in line with the one conducted in 2013, a transparency exercise will be run with detailed data on balance sheets and portfolios.

In the course of year 2014 the EBA has published 22 regulatory technical standards, 10 implementing technical standards (ITS), 17 guidelines, 14 opinions (consultations) and 1 recommendation. In order to promote the regulatory activity it launched 64 consultations, furthermore it prepared 23 reports and 1 comparative analysis and published 3 treatises.

### **II.7.2. Risk evaluations of the European financial sector**

According to the EBA's risk evaluation report (Risk Dashboard) based on data from the end of year 2014 - which was prepared by considering risk indicators of 55 banks:

- The banks' capital levels continue to remain strong, their common equity tier 1 (CET 1) ratio 12.1%, is higher by 50 basis points than the year 2013 figure.
- The portfolio quality continues to be poor. Compared to the end of the previous year, the ratio of impaired and past due loans have slightly decreased, by 20 basis points, to 6.6%.
- The return on equity is very low and is significantly below the average cost of capital, yet the ROE has gradually increased from the zero figure in year 2011 to 3.6% by the end of 2014.
- In 2014, at European level, deposits have grown faster than loans. The average loan-to-deposit ratio decreased further to 108.6%, reaching the lowest value since 2009.

According to the report of the European Supervisory Authorities Joint Committee published in May, the risks of the financial system have not changed significantly since the last report (August 2014), but they have intensified. The macroeconomic conditions in broad terms - particularly the low interest rates and the resulting search-for-yield behavior - as well as the European and global political tendencies have remained valid and sometimes became more stringent. Worries about operational risks, justified by risks resulting from inappropriate business conduct and negligence of proper maintenance, furthermore fears about the operability and sustainability of IT systems (cost pressure, outsourcing, the need for additional capacity and a mounting number of cyber attacks) complement the picture.

### **II.7.3 Other EBA and ESAs documents in Q2**

#### *Guidelines*

GL/2015/02 Final guidance on recovery indicators

GL/2015/03 Final Guidelines on triggers for the use of early intervention measures

GL/2015/04 Guidance on the sale of business tool

GL/2015/05 Guidance on asset separation tool

GL/2015/06 Guidance on the minimum list of services

GL/2015/07 Guidelines on triggers for resolution

GL/2015/08 Guidelines on the management of interest rate risk arising from non-trading activities

GL/2015/09 Guidelines on payment commitments under Directive 2014/49/EU on deposit guarantee schemes

GL/2015/10 Guidelines on methods for calculating contributions to deposit guarantee schemes

GL/2015/11 Guidelines on creditworthiness assessment

GL/2015/12 Guidelines on arrears and foreclosure

#### *Consultation documents*

CP/2015/07 A revised data template for the identification of G-SIIS

CP/2015/08 Draft ITS on the mapping of ECAs' credit assessments for securitisation positions

CP/2015/09 Technical standards on specialised lending exposures

CP/2015/10 The valuation of derivatives in resolution  
CP/2015/11 Passport notifications for mortgage credit intermediaries

#### *Technical standards*

RTS/2015/02 Final draft standards on assessment methodologies to use Advanced Measurement Approaches for operational risk  
Interactive ITS on reporting  
ITS/2015/03 Amended technical standards on leverage ratio disclosure and reporting  
ITS/2015/04 Amended technical standards on reporting of liquidity coverage ratio

#### *Other documents and events*

OP/2015/11 Technical advice to the Commission on contributions to the Single Resolution Fund  
Advice on criteria and capital treatment for securitisation  
REC/2015/01 Recommendation on equivalence of non-EU authorities for participation in supervisory colleges  
Report on convergence of supervisory practices  
Accomplishment of the EBA Colleges Action Plan for 2014 and establishment of the EBA Colleges Action Plan for 2015  
Workshop: "The application of the principle of proportionality in the context of Institutional and Regulatory Reforms"

#### *Publications of ESAs Joint Committee*

JC/2015/22 Recommendations on securitisation  
JC/CP/2015/02 Margin requirements for non centrally cleared derivatives  
JC/DP/2015/01 Discussion on PRIIPs<sup>23</sup> key information documents

### **II.7.4 Trends related to consumers**

#### *The EBA's annual consumer trends report in 2015*

Collecting, monitoring and analysis of consumer trends is one of the important tasks of the European Banking Authority. The EBA prepares an annual report about the findings, reviewing the status of trends discovered in the previous year and the related (EU and national authority) regulatory actions. For 2015 the EBA has focused on the following eight consumer market trends - making a basis for future activities:

- *Household over-indebtedness*, with particular regard to mortgages, as all over Europe the households are threatened by the increase of loan amounts.
- *Transparency and comparability of banking fees*, as banking fees are the most frequent reasons for consumer complaints.
- *Innovations in the area of payments*: with particular regard to the best trade-off between convenience, efficiency and security.
- *The structured deposits*, as due to the low interest rates more and more consumers look for higher yield products.
- *Commercial sales practices*, in particular remuneration as the main driving force of mis-selling.
- *Use of consumer data*, has become increasingly characterised at financial and other institutions for the purpose of generating additional revenue.
- *Alternative financial service providers*, as more and more new players enter the market in order to support and complement the traditional market players and compete with them.

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<sup>23</sup> Packaged retail and insurance-based investment products

- Interest rates and their influence on deposit and loan contracts.

From the above mentioned topics, the commercial use of consumer data and interest rates were identified in the EBA report for the first time.

*The joint consumer protection day of the European Supervisory Authorities (ESAs)*

The European Supervisory Authorities held a joint consumer protection day on 3 June for the third time in Frankfurt. The event gathered more than 300 participants, consumer representatives, academics, legal and financial consultants, national supervisors, experts and the representatives of the financial services industry. The discussion focused on conduct risk<sup>24</sup>, digitalisation of financial services and the challenges to be faced by banks, investment service providers, pension funds and insurance companies in the next decade.

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<sup>24</sup>Pursuant to the guidelines of EBA/GL/2014/13, “conduct risk” means the present or future risk of an institution resulting from its improper provision of financial services, including faulty performance due to intentional or negligent behaviour.