



**HUNGARIAN BANKING ASSOCIATION**

# **REPORT**

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**on Activities of the Hungarian Banking Association**

**4<sup>th</sup> Quarter 2017**

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## ***I. Executive Summary***

In Q4 of 2017, the ***world economy continued to grow at an accelerated pace***. This was the first year after 2010 when all the most important growth centers showed growth. The ***3.7 percent global growth*** may indicate a local peak, after which a slowing in its pace may be observed. Growth continues to be supported by lax monetary conditions at global level, the sustainability of which is generally made possible by inflation being near the target level and low raw material prices. These also incentivized the gradual increase of consumption and investment, as well as a decisive upswing in global trade.

***The growth of the US economy*** in Q4 (2.6% annual real GDP) did not reach the previous quarter's value (3.2%). The main sources of growth are the stable labor market and strong internal consumption. After the slowing of the previous two years, the increase rate of investment also somewhat accelerated. The current, almost full level of employment and migration policy may severely limit labor capacity and moderate positive effects.

The economic development of the ***European Union*** turned out to be more favorable than was expected at the beginning of the year. Growth exceeded the best data from the past 10 years (over 2.2% year-on-year in the Eurozone). The performance of individual member states has become much more balanced. The main driving force behind economic growth continued to be internal consumption, aided by the lowest unemployment rate since 2009. Export and corporate investment contributed to better growth as well.

***Japan*** is witnessing its eighth quarter in a row of continued growth, with an annual GDP growth that may reach 2.5%. ***China*** will manage to avoid a growth deceleration of considerable proportions, though domestic credit market processes are still raising concern. According to experts, ***Russia and Brazil*** have managed to ***pull themselves out of the recession of the past years***.

***In Q4 the outlook of the Hungarian economy continued to improve***, due mainly to the economic situation in Europe and especially Germany. ***A 3.9% growth may be predicted for Q4***, similar to Q3.

With regard to production, industrial output increased somewhat less than predicted. After an outstanding performance in 2016, agriculture returned to average, which means a nearly 6% decrease in output. Growth was mainly fueled by the service sectors, retail trade, and the construction industry. On the ***consumption side***, it was the increase in retail consumption dynamics and the surge in investments which had the most prominent impact. Employment rate continued to increase; unemployment rate fell to an unprecedented 3.8% by the end of autumn. At the same time, wages increased significantly, by 13% on a year-on-year basis. The annual rate of inflation is still less than the 3% target rate, in fact towards the end of the year a slight decrease was visible. The quarter saw unique budget balance indicators. The payment deficit calculated until end-December was extremely high, reaching 5% of the GDP. This was due to the fact that projects to be funded from EU sources were pre-financed by the state budget. At the same time, the budget deficit was kept under 2.4%, amounting to around 2%. Government debt will likely decrease by 1.5 percentage points, but will surpass previous levels when calculated together with EXIM. The central bank of Hungary (Magyar Nemzeti Bank (MNB)) continued its previous monetary policy and kept the benchmark interest rate at the previous level. The EUR to HUF exchange rate continued to stay within a relatively narrow range (between 308 and 315).

In the first two months of 2017's fourth quarter, the ***aggregated balance sheet total of credit institutions grew significantly*** (by 2.3%, HUF 830 billion), the primary explanation for which - in light of the fact that the forint weakened by less than half a percent - is the nominal growth of total assets. ***On the liability side*** all important liability types grew; the ***total gross deposit portfolio*** expanded by HUF 608 billion (2.6%), due mainly to the increase in current account and sight deposits, thus the maturity structure of the portfolio continued to shorten. Growth of the portfolio was mainly due to the increase in the volume of the deposits of non-financial enterprises (5.7%); household

deposits grew more moderately (1.8%). Issued securities remained stagnant. As a result of improving profit, equity increased by almost 1%. Within *the asset portfolio*, growth continued in all more important asset types, most considerably in securities embodying credit relations. *Credit portfolio* increased moderately in the first two months of the quarter; net credit portfolio grew by less than 1% (HUF 149 billion), which is slower than before. The gross value of credit increased by even less (0.5%, HUF 101 billion) which was once again compensated for by the reversal of impairment losses and by the added value gained from valuation difference. The gross value of household loans decreased moderately in October and November, the net value stayed at the level it was in previous quarters. The gross value of loans granted to non-financial enterprises improved, reaching 2.5%, while impairment loss and value difference had no considerable impact. The credit institutions sector's *net loan-to-deposit ratio* decreased to 100% (86.1% not counting interbank loan portfolios). The *profit* in the first two months of Q4 (HUF 48 billion) added up to less than was typical of the first three quarters. The banking sector reached a profit of HUF 598 billion before taxes by November, due mainly to specific factors. The annualized return on equity and return on assets was 16.9% and 1.84%, respectively. In October and November profit from **fees and commissions** amounted to less than before, the reason for this was a steep rise in the expenditures dedicated to providing payment services. Impairment loss and the change in provisions had no significant impact on the outcome of profit in this period.

The extension of the **eviction moratorium** from November 15<sup>th</sup> to April 30<sup>th</sup> has a negative effect on retail lending and makes it even more difficult for banks to exercise their mortgage rights.

In collaboration with the banks concerned, MNB further developed its **tender for the Certified Consumer-Friendly Housing Loans**. In response to the sector's recommendations, the period of interest definition was extended from 2 days to 15 days, and the issue of using an intermediary, as well as operative issues arising from state interest subsidy schemes were also included in the draft tender proposal.

According to the Hungarian government's decree, **families with a mortgage will receive a state subsidy of HUF 1 million (as non-repayable aid) after their third child** and every subsequent child, counting as prepayment for their mortgage. Based on detailed data supply, banks will settle with the Hungarian State Treasury on the prepayment that they advanced. The decree ignored several significant issues. To get clarification on these, we sent a letter to the Ministry for National Economy.

As a result of EU regulation the **classification of (mortgage) credit intermediaries changed from independent to dependent**, the management of which poses a difficulty for the sector, due to a lack of detailed regulation. We therefore asked the authorities for guidance on this issue. We took similar action with regard to **certain provisions of the act** on preventing and stopping money laundering and terrorism financing.

As a result of the mandatory transition to electronic administration, special attention was dedicated to **electronic communication with various authorities and institutions** in the fourth quarter. As of January 1, 2018, the use of the **Company Gateway** is compulsory for economic actors. The Gateway went live on December 28, 2017 without previous adequate testing. During the consultation period we indicated several times to the authorities responsible for the portal's preparation that the delay in the development of the new system and the fact that paper-based reporting is prohibited by law starting from the beginning of the year may result in serious operational malfunctions. We asked for the deadline for mandatory application to be **postponed by a few months**, but the Ministry of Interior refused. At the same time, the government specified in a decree the entities that are subject to the obligation to ensure electronic administration but need not apply the rules of the e-

*administration act*, since they were not able to provide the conditions for it through no fault of their own.

The Banking Association's experts also held a separate consultation with the Hungarian Chamber of Public Notaries on **electronic reporting between banks and public notaries**, which will in the end be carried out through the Office Gateway/Company Gateway.

We held several consultations with the relevant authorities on **reporting obligations to liquidators**, which now also has to be carried out electronically, in line with the amendment to the bankruptcy act.

In the last quarter of 2017 amendments were made to the *act on the integration of cooperative credit institutions*, to the *government decree on the public sale of the debtor's property in liquidation procedures*, and a new *act on bills of exchange* was adopted. The HBA and banks' experts took active part in providing feedback on these legislations, as well as in the preparation of *internal regulations of the Hungarian Bar Association*.

After its professional consultations on **risk-proportionate Beva fees**, the Board of the Investor Protection Fund accepted the expert group's proposal to further examine the issue and therefore postpone the reintroduction of risk-proportionate fee payment.

**MNB** consulted with the sector on the **Wholesale Funding Ratio**, which aims to manage differences in the asset-liability maturity structure of banks and roll-over risks. The **foreign exchange financing adequacy ratio** will also be modified at the same time, serving as a kind of **foreign currency NSFR**. In response to the Banking Association's request, MNB will introduce the two changes at the same time, with the summer of 2018 as the intended time.

Within the framework of the **MiFID 2 implementation**, the central bank approved a **decree** on the *personnel related conditions of investment services*. The *MNB recommendation on complex debt instruments and structured deposits* and the *MNB recommendation on cross-selling practices* were compiled based on the relevant ESMA guidelines.

MNB's department responsible for microprudential regulation complemented the **prudential regulatory package** created in 2017 with three important draft recommendations. It issued for consultation the *draft recommendations on reducing high levels of non-performing exposures, on several issues concerning the assessment and management of loans for real estate financing projects, and on the management of the real estate risks of financial institutions*. It also granted the possibility of in-person consultations on the content of these draft recommendations. (The MNB package also included the draft recommendation on *lending money with pledge coverage*.)

In addition, MNB's relevant professional departments asked the sector for feedback on the *draft recommendation on the remuneration of sales staff* and the *draft recommendation on the consumer debt recovery procedure*.

Regarding reporting, the regulatory authority is dedicating special attention to setting up the **Uniform Central Bank Loan Register (HITREG)**, which includes anonymized individual credit data and will grant the possibility of replacing several existing data services in the future.

**Important tasks for preparing for the PSD2** were providing feedback on the financial omnibus act, on the MNB decree for the practical application of these laws, as well as the joint interpretation of the 12 EBA regulatory technical standards (RTS) and guidelines, which are set out by the directive and must be applied to banks directly. The simultaneous preparation for the **Instant Payment System** poses a serious challenge, especially for the payments and IT departments.

At the same time, the entry into force of the *General Data Protection Regulation* in May calls for a full review of banking operations.

During the quarter the Banking Association participated in the organization of **two successful conferences**. The conference organized together with the Ministry for National Economy commemorated the 150<sup>th</sup> anniversary of the Hungarian General Credit Bank's establishment. The AFCA conference held in Budapest hallmarked a new phase in financial cooperation between China and Hungary.

Another example proving that the HBA's international relations are expanding is that the previously V4, now V6 cooperation between regional banking associations now welcomed two new, additional members: the Bulgarian and the Romanian banking associations.

With regard to **global regulation**, finalization of the Basel III regulatory reforms after a year's delay was a breakthrough. In early December, the much awaited decision was made by the decision making body of the **Basel Committee on Banking Supervision (BCBS)** to endorse the **remaining Basel III regulatory reforms**. The reform package was adopted on December 7<sup>th</sup> and includes such significant changes that a wide range of professionals now refer to it as Basel IV, even though the Committee has never used this name. The reform package includes a revised standardized approach for credit risk, revisions to the internal ratings-based approach (IRB) for credit risk, revisions to the credit valuation adjustment (CVA) framework, a revised standardized approach for operational risk, revisions to the measurement of the leverage ratio and a leverage ratio buffer for G-SIBs, as well as the introduction of an aggregate output floor. The revised standards will take effect from 2022, after a lengthy preparation period. The Committee also postponed the deadline for the implementation of the fundamental review of the trading book (FRTB) from 2019 to January 1, 2022. Therefore the revised standards will have to be implemented for credit, market and operational risks from 2022 as well. The Committee expects a full, timely and consistent implementation of the new reforms by member jurisdictions.

The Basel Committee made an important decision at its meeting in October on the net stable funding ratio's (NSFR) **treatment of derivative liabilities**. At its meeting in December it also adopted the new procedure for issuing technical amendment to its standards. The Committee's first proposed technical amendment regulates the **treatment of extraordinary monetary policy operations in the NSFR**. Based on the work done by its high-level Task Force for reviewing the regulatory treatment of sovereign exposures the Basel Committee **published a discussion paper on the treatment of sovereign exposures in December**.

In Q4 of 2017, the **Financial Stability Board (FSB)** issued two documents for consultation to promote resolution, one on the *principles in bail-in execution* and another on the *funding strategy elements of an implementable resolution plan*. In addition it reviewed the list of global systemically important banks, evaluated its 2018 work program and the further steps to be taken for evaluating the reforms introduced in the wake of the crisis.

The main decision making bodies of the **European Union** all aim to deepen cooperation. The **European Monetary Fund** has a symbolic meaning for the Eurozone, as does the proposal for creating the position of an **economic and financial minister**. The creation of a Task Force on Subsidiarity, Proportionality and "Doing Less More Efficiently" also supports the above.

The Commission also focuses on **completing the Banking Union**. It published a press release on the steps to be taken in 2018 to achieve this, in which it emphasizes that **risk reduction and risk sharing** must be implemented together. The Commission aims to renew negotiations on the European Deposit Insurance Scheme (EDIS) and to initiate the creation of a **fiscal backstop** for the Single Resolution Mechanism. It will create a comprehensive package for **the treatment of NPLs** (including among others the establishment of Asset Management Companies, the development of the secondary market for NPLs, the protection of secured creditors if borrowers do not pay their debt, and a statutory prudential backstop regulation to provision for NPLs).

The Commission found that it was justifiable to fast-track negotiations on several elements of the **risk reduction package** (RRP) of November 2016, which modifies the regulations for capital requirement and resolution (CRDIV/CRR, BRRD, SRMR). The directives on creditor hierarchy and IFRS 9 and large exposures were approved by decision makers in autumn 2017, making their implementation possible from January 1, 2018. Progress is slow concerning the full risk reduction package. The relevant rapporteurs of the European Parliament are debating the preliminary report. The Estonian presidency prepared compromise proposals for all four legal texts in focus. Establishing the **Capital Markets Union** as quickly as possible is another priority, which also requires the treatment of NPLs portfolios and proper insolvency regulation. An important development during the quarter was that the bank structural reform, which was opposed by the sector, has been taken off the agenda.



## ***II. Macroeconomic Outlook: the operating environment of the banking sector***

In Q4 of 2017, the ***world economy continued to grow at an accelerated pace***. This was the first year after 2010 when all the most important growth centers (USA, EU, Japan and China) showed growth at the same time. According to experts, the expected 3.7 percent global growth reached a kind of local peak in 2017, and may slow down from now on. Growth continues to be supported by lax monetary conditions at global level, the sustainability of which is generally made possible by inflation being near the target level and low raw material prices which incentivize the gradual increase of consumption and investment. All of this was accompanied by an upswing in global trade.

***The growth of the US economy*** in Q4 (2.6% year-on-year real GDP) did not reach the previous quarter's value (3.2%). The main supporting pillars for growth continue to be the stable labor market and (due to this) strong internal consumption. Contrary to expectations, the Fed still has not started the cycle of raising the interest rate, which is possibly due to both low inflation and a lack of wage pressure. After the slowing of the previous two years, the increase rate of investment somewhat accelerated, which may be further incentivized by the government investments indicated by the Trump administration. At the same time, the current, almost full level of employment and migration policy may severely limit labor capacity and moderate positive effects. Another risk factor for growth is the possibility that the United States may slightly withdraw from foreign trade, and as a result the financing of the US budget deficit may prove problematic.

***The economic growth of the European Union is showing significantly different trends than at the beginning of the year***. Most of the political risks expected for 2017 did not manifest in reality, although the first unsuccessful German coalition negotiations and the wrangling around Brexit did cause some uncertainties for economic actors. Growth exceeded the best data from the past 10 years (over 2.2% year-on-year in the Eurozone) and the performance of individual member states became much more balanced. The main driving force behind economic growth continues to be internal consumption, supported by the current state of the labor market (with the lowest unemployment rate since 2009). Export is becoming an increasingly important growth factor and has shown a surge in Q4 that could not even be negatively affected by the strengthening Euro. In addition, corporate investments have also shed the effects of the crisis. Monetary conditions have remained lax even though the ECB has somewhat curbed its bond purchase program. This however had no impact on the European economies.

***"Abenomics"*** is visibly working in ***Japan***, as after seven quarters of continued ***growth, Q4 is also expected to come to a similar close***: the annual GDP may reach 2.5%. This mainly depends on export and investment as due to a pressed labor market, consumption does not contribute to economic expansion.

Owing partly to the significant extension of the social safety net, China will manage to avoid a growth deceleration of considerable proportions, though domestic credit market processes are still raising concern. ***Russia and Brazil*** have made significant progress and, according to experts, have managed to ***pull themselves out of the recession of the past years***.

***In Q4 the outlook of the Hungarian economy continued to improve in terms of the real economy***, due mainly to the economic situation in Europe and especially Germany. Based on data on GDP components from the first two months of the quarter, after a 3.9% growth in Q3 (adjusted with seasonal effects and the number of work days) a similar expansion value is expected for the end of the year.

With regard to ***production***, the increase in industrial output in the first two months of the quarter was somewhat less than predicted. After an outstanding performance last year, agriculture returned to average, which means a nearly 6% decrease in output. Growth was mainly fueled by the service sectors and the increase in retail trade, although the construction industry's performance was also exceptional. On the ***consumption side***, it was the increase in consumption dynamics and the surge in

investments which had the most significant influence, while more import due to a growing internal demand slowly erodes the previously prominent surplus gained from foreign trade.

Employment rate in the **labor market** continued to increase (reaching 68.8% by November), despite a decrease in public employment. Unemployment rate fell to an unprecedented 3.8% by the end of autumn. At the same time, wages increased significantly (in November on a year-on-year basis, the increase in average wage was 13%), while the structural labor shortage affecting several sectors remained.

**There was no change in inflation processes** compared to the previous quarter; the annual rate is still less than the 3% target rate, in fact towards the end of the year a slight decrease is visible in the growth rate of price quality (2.1% in November). Core inflation (which provides a better reference to actual price pressure) is gradually rising, but, though barely, it is also less than the target inflation rate. There is no pressure for inflation coming from the outside environment either. Despite faster wage dynamics, as predicted, price pressure for demand is only building up gradually.

This quarter saw unique **budget balance indicators**. The **payment deficit** calculated until end-December was extremely high, reaching 5% of the GDP (HUF 1.974 billion). This is primarily caused by the fact that projects to be funded from EU sources had to be pre-financed from the budget, amounting to a nearly HUF 1000 billion expense by the end of the year. According to the preliminary government announcement, the **budget deficit** calculated through EU methodology (i.e. EU pre-financing adjusted) was kept under 2.4%, amounting to around 2%, which is also a result of favorable growth rates. **Government debt** has also likely decreased by 1.5 percentage points, to 72.4% (74.5% counting EXIM).

Due to the steep rise in internal demand, by the end of 2017 the current account surplus will probably decrease. As a result of the fast track use of EU sources, the net external financing capacity of the country may stay high, which may in turn promote an accelerated decline in foreign debt.

The central bank of Hungary (Magyar Nemzeti Bank) continued its previous **monetary policy** and kept the benchmark interest rate at the same level. In November it announced the introduction of two new schemes for January 2018: a swap instrument of 5 and 10-year maturity, and a mortgage bond purchase program, the aim of which is to extend the credit interest period of banks.

The **EUR to HUF exchange rate** continued to stay within a relatively narrow range (between 308 and 315). By the end of the quarter the forint became slightly stronger.

In the first two months of 2017's fourth quarter, the **aggregated balance sheet total of credit institutions grew significantly** (by 2.3%, HUF 830 billion). In the same time period, the forint only became moderately weaker compared to the Euro and the American dollar (by less than half a percent). Thus this rise is mainly due to the nominal growth of total assets. Forint portfolios grew considerably in comparison with the end of Q3, while the cumulative effect of other foreign currency portfolios is neutral.

On the **liability side** all important liability types grew or remained mainly stagnant. The total gross **deposit portfolio** expanded by HUF 608 billion (2.6%). The main reason behind this growth is the increase in current account and sight deposits by HUF 760 billion (5.1%). Short-term deposits fell by HUF 164 billion (3.7%), while the volume of long-term deposits did not change significantly. As a result of all of the above, the maturity structure of the portfolio continued to shorten. Growth of the portfolio was mainly due to the increase in the volume of the deposits of non-financial enterprises, which grew at a faster rate (5.7%, HUF 413 billion) than it did during the year. There was also a significant rise in the deposits of non-monetary financial institutions (HUF 124 billion, 4.9%). Household deposits grew more moderately (1.8%), while the deposits of other sectors decreased. Interbank borrowed deposits increased by 2.2% (HUF 107 billion). This is the result of the central government (more specifically the Government Debt Management Agency) repo transactions carried out with government securities coverage (amounting to a total of over HUF 150 billion). Issued securities remained practically stagnant in this period, while due to improving profit, **equity increased** by almost 1% (HUF 46 billion).

Within **the asset portfolio**, growth continued in all more important asset types, most considerably in securities embodying credit relations. **Credit portfolio** increased moderately in the first two months; net credit portfolio grew by less than 1% (HUF 149 billion), which is significantly slower than the dynamic 2-4% quarterly growth during the year. The gross value of credit increased by even less than before (0.5%, HUF 101 billion) which was once again compensated for by the reversal of impairment losses in forints (HUF 27 billion), and by the added value gained from valuation difference (HUF 24 billion). The gross value of household loans decreased moderately in October and November (by HUF 43 billion, 0.7%). Since reversed impairment loss and value difference amounted to roughly the same in this segment, the net value stayed at the level it was in previous quarters. After shrinking significantly in the last quarter, the gross value of loans granted to non-financial enterprises improved, reaching 2.5% (HUF 208 billion), although it still remains lower than in H1. Impairment loss and value difference had no considerable impact in terms of the portfolio in this sector. In the case of other sectors a significant impact was made by the 3% (HUF 79 billion) decrease of gross credit portfolio in the interbank market. Interbank account and deposit portfolio grew by 1.6% (HUF 78 billion). MNB deposits decreased considerably, by 9.4% (HUF 145 billion), which includes both the decrease of the central bank's benchmark instrument due to the self-financing program, and the withdrawal of central bank scriptural money. At the same time, portfolio allocated at other credit institutions grew significantly, primarily in foreign context (+7%, HUF 177 billion). Securities embodying credit relations increased considerably in the first two months of the quarter (by HUF 584 billion, 6%). The main reason for this is the increase in long-term Hungarian government securities (HUF 512 billion, 7.2%).

As a result of the above effects, the credit institutions sector's **net loan-to-deposit ratio** decreased to 100% (86.1% not counting interbank loan portfolios).

The **profit** in the first two months of Q4 added up to less than was typical of the first three quarters (HUF 48 billion). The banking sector reached a profit of HUF 598 billion before taxes by November, due mainly to specific factors (dividend, reversal of impairment loss, valuation difference). In October and November it was primarily the profit from **fees and commissions** which amounted to less than before. This was due to a steep rise in the expenditures dedicated to providing payment services. Impairment loss and the change in provisions had no significant impact on the outcome of profit. As a result of the above effects, in annualized terms the banking system gained a 16.9% return on equity and a 1.84% return on assets in the last two months of the quarter.

### **III. Corporate sector**

According to the central bank of Hungary's (Magyar Nemzeti Bank) November issue of Trends in Lending in 2017 Q3, a further expansion was observed in the corporate segment, with corporate lending as a whole increasing by nearly 9 per cent year on year. Accordingly, for two consecutive quarters now the expansion in corporate lending was within the 5–10 per cent band deemed desirable by the MNB. Lending to the SME sector, including the self-employed, grew by a total of 13 per cent. In the period under review, the balance of transactions significantly exceeded that of the previous quarters, reaching a total of HUF 193 billion. As a result, total corporate loans outstanding increased by HUF 517 billion over the past year (from September to September) on a transaction basis. An expansion of nearly 10 per cent was recorded in the case of the narrow SME sector.

Based on banks' responses to the Lending Survey, credit conditions at both large companies and SMEs eased, which the banks participating in the survey explained with increasing competition between banks and an improvement in economic prospects. Looking ahead, they expect these developments to continue in the next half year, holding out the prospect of further easing. During the quarter, enterprises' credit demand increased to a degree that exceeded market expectations. The expansion in demand for commercial real estate loans also contributed significantly to the positive surprise. Some of the banks expect an increase in demand during the next half year and, in parallel with the improving prospects in the commercial real estate market, a further expansion in demand for related loans. The average interest rate spread on corporate loans did not change significantly in Hungary or the region.

### **IV. Retail sector**

Lending to households grew further in the quarter, rising by 3.6 per cent in annual terms over the year to September 2017. The annual value of loan transactions amounted to HUF 211 billion, with 2017 Q3 contributing HUF 83 billion. The annual average increase in the volume of new loans was 43 per cent. Within that, new housing loans and personal loans grew by 29 per cent and 46 per cent, respectively.

Based on responses to the Lending Survey, banks, on the whole, did not change their lending conditions, although many respondents indicated a reduction in credit spreads in both the housing and consumer loan segments, similar to previous quarters. As perceived by banks, credit demand in both product groups kept growing, with a continued contribution by the Home Purchase Subsidy Scheme for Families: in 2017 Q3, 17 per cent of the volume of newly issued housing loans were related to the HPS. Partly as a result of slightly greater recourse to variable-rate products, which accounted for 44 per cent of disbursements in the quarter under review, the financing costs of new housing loans declined.

#### **Extending the eviction ban**

The **extension** of the **eviction moratorium** adopted on October 31<sup>st</sup> has a negative effect on retail lending. In response to the Christian Democratic People's Party's (KDNP) representatives' proposal, the Hungarian Parliament unanimously voted in favor of extending the eviction ban from November 15<sup>th</sup> to April 30<sup>th</sup>, in the case of private individual debtors. (This period previously lasted from December 1<sup>st</sup> to March 1<sup>st</sup>.) They justified this change by aiming to provide more time for debtors who have lost their homes and for their local government notaries to find a place to stay. For banks, the extended period makes the exercising of their legal mortgage rights even more difficult.

The law entered into force the day after it was announced. Its provisions also apply to enforcement proceedings that were in progress on the day it entered into force, and where the residential property had not yet been evicted at the time.

### **Consultations in connection with the Certified Consumer-Friendly Housing Loans, modification of the tender**

In Q4, the consultations with MNB's experts on the **modification of the tender procedure for** the Certified Consumer-Friendly Housing Loans (CCHL) and on **relevant technical issues** continued. Based on the modification proposals outlined by MNB in early October and banks' comments the central bank's text version of the modification proposal was completed by mid-November, after several rounds of consultation with the Banking Association and the credit institutions concerned. In addition to **extending** the period of interest definition **from 2 days to 15 days**, the question of **using the intermediary** and **operative issues arising from state interest subsidy schemes** were also included in the draft modification proposal. We forwarded our latest recommendations for consultation to MNB in mid-December, thus they are currently under evaluation.

In addition to participating in the modification of the tender, in collaboration with MNB's experts we also consulted on the content of the **four legal notices** on MNB's website and made complementary proposals to it. In early December, the central bank announced its interpretation of the fees to be included in the Annual Percentage Rate of Charge in a circular.

### **Reducing the mortgages owed by families with many children through state subsidies**

According to the Hungarian government's decree, **families with a mortgage will receive a state subsidy of HUF 1 million (as non-repayable aid) after their third child** and every subsequent child, counting as prepayment for their mortgage. The decision on the subsidy will be made by district offices on behalf of the state, but creditor banks will also receive a significant role in the process:

- if the state subsidy is requested, they will inform the district offices in detail about the main parameters of the mortgage in question; and
- if the district office approves the subsidy, they will make the prepayment on behalf of the client, recalculate the mortgage parameters, and come up with new (reduced) installment plans.

Based on detailed data supply, banks will settle with the **Hungarian State Treasury on the prepayment that they advanced**. During the preliminary consultations, we managed to achieve that banks will be reimbursed for the complicated and responsible work they must conduct to carry out this process.

After the decree was issued, several of our member banks indicated that it does not provide regulation for several essential issues. They therefore recommended that we indicate these problems to the ministry responsible as soon as possible. As asked, the Banking Association sent a letter to the Ministry for National Economy (MNE), in which (among other things) it stated that:

- it is not clear who is entitled to the subsidy (for example should the mortgage already have the coverage approved in the decree when the loan is issued or is it enough if this condition is satisfied upon submitting the request for the subsidy);
- it poses difficulties in management that the prepayment – in opposition with the Civil Code – must first be used for the capital and can only be used for its contributions afterwards;
- the information flow between creditor banks and state organizations (district offices, MNE, Hungarian State Treasury) and its details regarding content and form have not been properly elaborated;

- the new scheme is difficult to harmonize with banks' already existing customer help programs.

We asked for a quick response from the ministry, in light of the decree's implementation deadline.

### **Problems with reclassifying mortgage credit intermediaries**

As a result of EU regulation the ***classification of mortgage credit intermediaries changed***. While formerly to be a mortgage credit intermediary one had to sell the products of several creditors (who entrusted him or her with their products), according to the ***new regulation one can only classify as an independent intermediary if his or her creditors hold at least a 50% market share of the product that he or she is selling***.

At the same time the relevant legislation did not arrange which authorities are responsible for measuring market share and on what data or who will be licensed to reclassify a given intermediary, if necessary. The regulation also does not explain the ***responsibility, professional training, fee policy and complaint management requirements that apply to reclassified intermediaries***. This would be especially important since in the case of ***intermediaries who are reclassified as dependent from previously being independent, the entrusting credit institution must take the responsibility for completing their tasks***.

Based on the detailed outline of relevant problems that the Banking Association received from its member banks, we sent a letter asking the MNE and the MNB to take measures to remedy these gaps in the legislation. The MNB wrote a letter of response in which it gave a detailed explanation on the special transitional instruments it will use to resolve the issues arising from an insufficient legal environment, and also proposed legislative changes. Furthermore, the MNE revealed its willingness to take the necessary legislative preparatory measures.

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

### **Amendments to the act on the integration of cooperative credit institutions**

On 20 December the National Assembly enacted *Act XXCIX of 2017 on the Amendment of certain acts related to national assets and national financial services*. This act also included an amendment to *Act CXXXV of 2013 on the integration of cooperative credit institutions and the amendment of certain economic acts*.

***Rules on the exit of members with no joint and several liability*** have been established and this Act amended the ***rules on the financial contribution of exiting members*** with regard to cooperative credit institutions. Under this Act, members with no joint and several liability will be reimbursed their financial contribution within 30 days following the notification of their exit, but only the part that they have made available directly. The ***membership fee*** projected to the risk-weighted exposure has also been amended; it is no longer the statutory fixed level of 0.1% but set as a *minimum of 0.1%*; its exact level will be set by the General Meeting of the Integration. In the General Meeting of the Integration, the ***voting power ratios*** became more balanced via the change in the principle of financial contributions.

This Act increased the ***possible number of members in the Board*** (at least five but seven at most, rather than the minimum of three and maximum five members earlier), and, based on practical experience, the ***tasks*** and powers of the ***Executive Board have been extended***, with the view to unburden the Board. Parallel with this, ***the powers of the Supervisory Board to perform audits and request reports*** have also been extended.

The Hungarian Banking Association was invited to the consultation held in the preparatory phase of

the bill.

### **Decree on the sale of property during liquidation**

After a multi-round consultation, *Government Decree 300/2017 (X.17.) on the amendment of provisions on the public sale of the debtor's property in liquidation procedures* has been published. During the consultations, we managed to achieve that **the creditor's committee**, i.e. the creditors' representative, **is notified of the call for tenders for the sale and the setting of the date for the auction, irrespective of value limits**, before publishing it in the Company Gazette. This is rather important, since the deadline for a written "objection" to a decrease in the estimated value is when it is sent to the Company Gazette. The liquidator may, in a sale announcement published in a repeated sale procedure, decrease the minimum bid to 70% of the estimated value but only if it is objected against in writing by the majority of creditors, calculated pro rata to their claim, or the holder of the first rank security on the asset before the announcement is sent to the Company Gazette for publication.

### **Reporting obligation to liquidators (amendment to the Bankruptcy Act)**

The amendment to the Bankruptcy Act that entered into force on 1 July 2017 **provided for an electronic reporting obligation** in bankruptcy and liquidation procedures for banks and investment service providers towards the liquidator companies. However, this act has not dealt in detail with the **information security and secrecy protection** aspects. The Banking Association initiated a consultation with the National Association of Liquidators and Administrators (FOE) with a view to settle this issue; this consultation was joined by the **Authority Keeping the Register of Liquidators (FNVH)**, which belongs to the Ministry for National Development. The affected parties agreed that the liquidator shall contact the financial institutions in an authenticated electronically signed and timestamped letter, to request the data of the entity subject to liquidation. Financial institutions keeping an account for the company subject to liquidation will send a response letter to the liquidator, without releasing any bank secrets. The appointed liquidator may receive detailed data from the financial institution after its identification in accordance with the AML Act<sup>1</sup>. Pending the amendment of the Bankruptcy Act, this can take place in person or via the post.

After a multi-round consultation, the FNVH sent out a standard letter to liquidator entities, advising them of the envisaged measures in the context of reporting and the standard procedure that is requested to be certified. A similar letter was prepared for financial service providers. A consultation took place also with the Methodology Directorate of the MNB, since under the Bankruptcy Act MNB compiles the list of financial institutions that can be contacted by liquidators in order to search for the assets of the debtor company. At this consultation we suggested that the range of institutions to be contacted should be clarified. The FNVH initiated an amendment to the Bankruptcy Act, which was included in *Act XXCIX of 2017 on the Amendment of certain acts related to national assets and national financial services*. Under this amendment, **after the publication of the order on the liquidation of the debtor, the payment service provider and the investment service provider shall notify the appointed liquidator if they keep an account for the debtor**. The liquidator may request information after its identification under the ALM Act, which needs to be sent to it in accordance with the rules of secure electronic liaising in line with the general rules for electronic administration and fiduciary services. It is problematic that liquidators have a company gateway rather than an office gateway and currently **communication between two company gateways is not possible**. We initiated that the Ministry for National Development should resolve this issue.

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<sup>1</sup> Act LIII of 2017 on the Prevention and Combating of Money Laundering and Terrorism Financing

## Reporting to public notaries in inheritance procedures

The special act, linked to the entry into force of the act on the activities of lawyers, amended **the provisions on reporting by banks and other financial institutions to public notaries** of Act XXXVIII of 2010 on Probate procedures. The notary and the public notary may request data, in order to identify the assets of a deceased person, from payment service providers, investment service providers, voluntary pension and mutual funds, health funds and insurance undertakings. **In the course of this data request the public, notary shall use the chamber's uniform national system for this purpose, and the financial institution shall send its reply using the same system.** However, until the end of 2018 a transitional provision of the Act allows the use of the electronic liaising under Act CCXXII of 2015 on the general rules of electronic administration and fiduciary services for sending data requests and responses. (This latter is the system of office gateways / company gateways.) At the consultation held with the Hungarian Chamber of Public Notaries (MOKK) in October it was reported that Microsec Zrt, mandated with the system development, made progress in the establishment of the system but the XML format of the question/response message is not yet ready. They said that if the system will not be operable by 1 January, the requirement for electronic liaising can be complied with via the office gateway/company gateway system. At the next meeting held on 3 November, with a great number of participating banks, Microsec Zrt. presented the operation of the system, its structure and its advantages. A great advantage of this system is the option for automation; however, it is more costly than using the office gateway/company gateway system.

MOKK advised in December that they do not intend to implement the uniform national computer system using the system developed by Microsec Zrt, but they will deliver requests from MOKK's office gateway to the credit institution's company gateway.

The e-file to be sent contains the uniform request order from the public notary in PDF format, with any known identification and other data annexed, and the draft response containing the request in XML format. The IT development of this system is not ready either, therefore negotiations are ongoing on the way in which reporting obligations can be met under the current legislative framework, in view of the fact that paper-based reporting is prohibited by law as of the start of this year.

## Developments Related to Company Gateway

**As of 1 January 2018, the use of Company Gateways is compulsory for economic actors;** it went live on 28 December 2017. In this context, the SME Working Group and the Legal Working Group held several consultations in the fourth quarter with representatives of the Ministry of Interior Affairs and the National Infocommunications Service Provider Co Ltd (Nemzeti Infokommunikációs Szolgáltató Zrt. - NISZ Zrt.) on the legislative background of electronic administration, on hosting for economic actors (Company Gateway), the obligations of entities providing electronic administration/ required to use electronic administration, the obligations of economic actors and on the Economic Administration Supervisor. The representative of the National Office for the Judiciary explained **the procedure for e-liaising, the process for submitting submissions, the amended ANYK<sup>2</sup> forms, requirements for e-signatures, sanctions for violating electronic liaising, deadlines for submitting electronic submissions, and the process of serving electronic documents** applicable in procedures initiated on 1 January 2018 and later. In addition, he provided information on **the relationship between the Company Gateway, the Client Gateway and the Office Gateway** and their users. He also advised that, after 31 December 2017, no more submissions can be forwarded from the Litigation Gateway to courts and, as of 1 January 2018, submissions will be sent and received via the Company Gate.

In November we contacted the Ministry of Interior with a request to postpone the deadline for mandatory application **by a couple of months** to avoid the problems that can be expected due to the

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<sup>2</sup> General Form Completion Application



late testing and the year end launch coinciding with its mandatory application, but the Ministry rejected it. We then received a draft decree for consultation that exempts certain entities from the mandatory application of the Company Gateway. *The amendment to Act CCXXII of 2015 on the general rules of electronic administration and fiduciary services* provided the Government with the opportunity to specify, in a decree, those entities that are subject to the obligation to ensure electronic administration that will not apply the rules of the *e-administration act* on liaising with clients and other entities, since they were not able to provide the conditions for it through no fault of their own.

### **Draft decrees related to the Act on Lawyers**

In the context of the activity of lawyers, we were consulted upon *the draft decree of the Minister of Justice on the photo certificate of persons entitled to pursue a lawyer's activities*, and *the draft decree on the administrative service fees payable for the official bar services*. In addition to it, several meetings were held in the relevant ad hoc working group and played a very active role in drafting and consulting on bar policies. The legal counsels of banks and from the industry joined ***the working groups of the Hungarian Bar engaged in the preparation of policies*** on the basis of spontaneous self-organization and work sharing, and they represented the interests of bar member legal counsels there. In this process, the Banking Association provided organizational, consultation and infrastructural assistance. (Key policies we provided input to: the Statute, Rules of Ethics, Rules of Official Procedures, Membership Fee Policy, Disciplinary Policy, Document Drafting Policy, Election Policy, and Training Policy of the Hungarian Bar)

### **Consultation on the new act on bills of exchange**

Statutory regulation is necessary due to the *new Act on Civil Procedure*, which entered into force at the beginning of 2018, since this lacks provisions on bill of exchange lawsuits, unlike the earlier Civil Procedure. Because of this, *Law Decree 1 of 1965* and *Decree 1/1965. (I.24.) of the Minister of Justice, regulating the substantive aspects of the law of bills of exchange*, have been repealed.

Banks are affected in bill of exchange transactions as discounting locations. We could not support the proposal to establish a regulation covering the entire banking system, and to appoint *ex lege* the account keeping bank of the bill of exchange debtor as the discounting location. The holder of the bill of exchange is not aware of the account keeping bank of the debtor, in particular regarding natural persons (there is no central register of the bank accounts held by private individuals), and the company register may specify four or five banks as account keeping banks for a company. We raised the option that the account keeping bank of the direct debtor of the bill of exchange (subject to the payment obligation) should take up this task on the basis of an agreement with the direct debtor of the bill of exchange.

During the multi-round consultation on the bill, we made numerous observations on procedural issues and for clarification purposes; we also took part in the more restricted consultation held by the Ministry of Justice, together with the representatives of BAMOSZ, BSZSZ, the Stock Exchange and the OBH. We essentially agreed with the draft as amended on the basis of our proposals. *Act CLXXXV of 2017 on the rules of bill of exchange law* has entered into force at the beginning of 2018.

### **Requests for opinions in the context of the act on money laundering (Ministry for National Economy, MNB)**

In the anti-money laundering working group of the Hungarian Banking Association several issues of interpretation were raised, on which we considered it necessary to obtain the views of the

Supervisory Authority. Based on the working group's decision, we forwarded the questions to the competent department in the Ministry for National Economy; most questions were replied to in a positive manner by the Ministry, after consultation with these two authorities.

The Ministry sees no legislative obstacle to banks requesting the client to submit a photocopy of the personal identification documents of the beneficiary owner in order to **verify the information on the beneficial owner**, and to keep this copy in their records.

Under Section 7 (2) of the AML Act, the **tax number** is information to be obtained mandatorily; however, there are entities, both in Hungary (e.g. condominiums) and abroad with no tax number. In these cases, the entity has to certify in a credible manner that it is not engaged in any taxable activities.

In view of the fact that the AML Act does not currently distinguish clients in a long-term business relationship with the service provider and "clients" issuing one-off orders, the Ministry confirmed that, for the purposes of performing one-off orders below the threshold issued by clients maintaining a business relationship with the service provider, no new **PEP<sup>3</sup> declaration** needs to be requested.

### **Expert consultations on risk-proportionate Beva fees and conclusion**

Upon the proposal from the Beva work organization, an expert working group was established in the fourth quarter of 2016 with the view to revise the earlier introduced but later suspended methodology of risk-proportionate fee payment. The participants of this working group were, in addition to the Beva experts, delegates from the MNB (subsequently the Ministry for National Economy), the Banking Association and the Association of Investment Service Providers. In its work that lasted until October last year, the working group has surveyed **the objectives to be accomplished by a methodology for risk-proportionate fee payments** in the light of the experience gained in the context of 2015 events that led to indemnification, as well as **the key requirements for the introduction of risk-proportionate payments and the effect of risk on fees, the prominent risk factors** to be taken into account subject to the current deposit ratios, **and the options for incorporating risk factors into calculation methods**.

The working group has examined **risks** posed by the ownership background and management of institutions, their capital positions, the composition of portfolios managed by them, the nature of the investment service provided, counterparty risks (including sub-depositories) and operational security, **the indicators** that are able to **represent them properly, and assessed their practical applicability** using anonymized reporting.

The working group concluded that although there are certain indicators that are suitable for measuring risks, it has not supported their stand-alone introduction as an indicator for risk-proportionate fee setting, since the introduction of individual factors would show a disproportionate picture of the individual institutions' risk exposure.

The experts proposed performing further examination of this issue. The Board of Beva took note of the working group's report unanimously.

### **The formation and regulation of Sectoral Skill Councils**

Under the amended act on vocational training, as of 2018 the earlier National Qualification Committees (NKB) will be replaced by **Sectoral Skill Councils, to be established by the vocational training administration**. The essence of this change is that while in the past members of the National Qualification Committees were delegated by the Ministry for National Economy, Ministry for Human Resources, economic chambers and sectoral associations, from now on members to the Sectoral Skill

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<sup>3</sup> Politically Exposed Person

Councils **will be delegated by companies from each sector, coordinated by the Hungarian Chamber of Commerce and Industry (MKIK)**. The basic task of these councils will be identical to that of the committees, namely to channel market needs into the requirements for vocational training and adult education, primarily in the context of the content of OKJ and formal vocational training, which they intend to provide in this new structure by increasing direct market participation of the highest possible standard.

MKIK started to organize the councils well before the amended act's entry into force, in early autumn. The Banking Association directly takes part in the work of the councils, the constitutional meeting of which took place on 7 December 2017.

## **VI. Developments concerning Magyar Nemzeti Bank (the central bank of Hungary)**

### **Consultations on the Wholesale Funding Ratio**

The department of the MNB responsible for macroprudential regulation presented its preliminary vision in early October at a high level leader's consultation on the **differences in the asset-liability maturity structure of banks** and the new instruments for **managing roll-over risk**, which aims to keep within limits the amount of liabilities that can be accepted from financial institutions (including non-credit institution actors). According to MNB, in the current expansive growth period, the banking sector, in addition to the slowing increase in clients' deposits, tends to lean more and more on interbank liabilities, which, in case of difficulty in financing, will disappear all too quickly and bring institutions that rely on them heavily into quite difficult situations. According to preliminary aims, the new **Wholesale Funding Ratio**, will limit **risk-weighted financial interbank liabilities to 30% compared to total liabilities without counting own capital**.

In-person consultation was followed by a consultation period, during which several proposals were formed for calibrating the individual elements of the Ratio, primarily concerning the interbank liabilities to be considered and determining the value of the Ratio. As a result **subordinated loan capital, refinancing sources** (according to the act on mortgage credit institutions these are refinanced mortgage loans, refinancing loans granted by MNB, the MFB-Hungarian Development Bank, EXIM or EIB), **issued bonds with at least two years' maturity, and sources gained from parent institutions within Hungary will not be considered**. Although roll-over risk associated with sources gained from foreign parent companies is not significant, the MNB does not wish to exclude these from the category of liabilities to be considered. According to current plans, it is also probable that institutions with total assets under HUF 30 billion will not need to apply the Ratio.

In light of overlapping regulation the **foreign exchange financing adequacy ratio** will also be introduced together with the new Wholesale Funding Ratio, which will serve as a kind of **foreign currency NSFR** in the future. In answer to the Banking Association's request, MNB will introduce the two changes at the same time.

After the consultation (which lasted until the end of October), the central bank sent out the text of its draft decree for comments in mid-December. MNB also began to consult with the European Central Bank and the European Systemic Risk Board (ESRB). The consultations are expected to finish by January 2018, and the MNB decree will be announced by the end of Q1 2018, and is planned to come into effect in summer 2018.

### **Implementing MiFID 2**

- *Draft MNB decree on the personnel related conditions of investment services*

MNB sent its draft decree out for comments at the end of September. The draft decree's text takes into consideration ESMA's *Guidelines for the assessment of knowledge and competence*, published in March 2016. In addition to the **professional capabilities of the employees providing the service and the criteria for competence**, the draft decree also regulates the **details of the special training program for providing skills and competencies, as well as registry keeping and cooperation obligations**.

Some significant concerns about the draft decree arose during the one-month consultation period, such as the fact that the draft **put the persons providing investment advice and the persons providing solely information on investment services and instruments under the same category** (contrary to the ESMA guidelines). It therefore applied the same criteria to both, even though the training and knowledge required for the two jobs is actually very different. In addition, the regulation granted only a short time for creating the special training systems, and its requirements would have been enforced immediately for new employees of this job, regardless of the lack of training systems. The above problems were resolved in the decree's final text, which was disclosed at the end of December 2017.

- *The MNB draft recommendation on complex debt instruments and structured deposits*

Based on ESMA's guidelines of the same title, MNB sent its draft recommendation on *complex debt instruments and structured deposits* at the end of November, with a one-week period granted for feedback. The draft recommendation gives guidance on the cases where the provisions in connection with the IRA<sup>4</sup> need to be applied for instruments with essential features. The draft recommendation also gives concrete examples to help standardize and facilitate its application. The central bank issued the recommendation in January 2018.

- *MNB draft recommendation on cross-selling practices*

We received the MNB draft recommendation on cross-selling practices (the aim of which is to implement ESMA's guidelines of the same title) in early December. The recommendation **conceptually separates simple packages** where all components can be bought individually **from tied packages. Information requirements, however apply to both equally**.

An essential condition of carrying out investment services is opening a client and payment account for the flow of payments that goes together with these services. Therefore our proposals for modifying the recommendation aimed to separate the management of the account from the package of other products, and thus keep it from falling under the scope of the recommendation. In addition, we asked for clarification on certain concepts. MNB did not support our proposals, claiming that the recommendation was compiled by using the exact text of the ESMA guidelines, but seemed open to managing the issue by establishing a resolution.

### **Prudential draft recommendations**

At the Board meeting in November MNB's officials responsible for microprudential regulation presented the aim, logic, elements (and their relation to one another) of the prudential regulatory package created in 2017. Some elements of the package had already been completed before the Board meeting (such as the new credit risk recommendation) or were about to be disclosed (such as the modification of the decree on the treatment of non-performing exposures or the

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<sup>4</sup> Act CXXXVIII of 2007 on Investment Firms and Commodity Dealers, and on the Regulations Governing their Activities

recommendation concerning IFRS9). The presenters announced that they will inform the sector about three other important draft recommendations in the near future: the draft recommendations ***on reducing high levels of non-performing exposures, on some issues concerning the assessment and management of loans for real estate financing projects, and on the real estate risks of financial institutions***. The aim of these measures (which follow European examples) is to in the future prevent a too-large buildup of exposures in areas that proved to be especially risky during the crisis.

The draft recommendations arrived at the Banking Association a little while after the Board meeting. We consulted in detail on them first with the representatives of banks, then with MNB's experts. Our basic request was that the recommendations be fitted to existing and currently forming legal frameworks (both domestic and European), and that ***they should not contain mandatory requirements, but best practices concepts***. Furthermore, it is important that the sector have enough time to prepare after the recommendations are announced – MNB promised us that it would guarantee this.

The MNB package included the draft recommendation on ***granting loans with pledge coverage directly by the financial institution as well as through prioritized dependent intermediaries***. With this, MNB aims to fill the much lamented gap in material legal regulations on these transactions. In our comments sent to MNB, we pointed out that the draft ***has little consideration for the essential features of a pawnshop transaction***, due to which it is difficult to align it with the requirements for loans set in the Civil Code and the Act on Credit Institutions. Consequently, they are trying to enforce prudential and consumer protection aspects through exaggerated administration and detailed supervisory requirements, which probably will not achieve the expected results, but will result in significantly more expenses. We asked for the recommendation to define the requirements of the approval procedure and the documents to be submitted in individual procedures.

#### **Draft recommendation on the remuneration of sales staff**

MNB sent its *draft recommendation on the remuneration of product sales staff* in late October, awaiting comments. The draft recommendation concerns retail bank products and aims to implement the EBA's guidelines in the same subject. The ***main criticism*** that the banking community had regarding the draft was about the ***management of intermediaries***. First, in the environment that was created as a result of previously established regulation on intermediaries, it is counterproductive to further tighten regulations. Second, in certain cases that concern the employee of the intermediary, due to the Civil Code, it is not feasible to ask for this level of requirements in the control recommendation by the financial service provider. In the case of other persons who have a different legal work relationship, the limiting of variable remunerations in proportion to fixed remuneration is also problematic, as the relevant government decree does not make this possible. It is also counterproductive (and may result in the significant migration of the employees concerned to other sectors) if the delayed payment of variable remunerations will apply to sales staff of lower rank. We requested that the entry into force of the recommendation in January (as required by the EBA) should happen in a way that makes it possible to meet requirements later, and grants an adequate implementation period to credit institutions and intermediaries.

Our suggestions are currently under review at MNB's relevant professional department.

#### **Draft recommendation on the consumer debt recovery procedure**

In September 2017 the central bank of Hungary sent a consultation request ***on the MNB Recommendation on the consumer debt recovery procedure***. The background to this Recommendation is the revision of the format and content of Recommendation No. 14/2012 (XII.13.) of the Chairman of the FSA ***on the consumer protection principles expected from debt collectors in***

*their debt recovery practice* (hereinafter the FSA Recommendation), as well as the re-regulation of the debt collection activities via supervisory expectations.

The Workout Working Group discussed the key issues of the opinion sent to the MNB in a separate meeting. In our comments, we proposed to **clarify the scope of this recommendation** (to exclude procedures regulated by law, such as enforcement; clarification of its relationship with *MNB Recommendation 1/2016. (III.11.) on defaulted customers*; a clear separation of claims arising from financial services and other claims.) In addition to this, we have sent a very detailed drafting proposal to the text of the recommendation and, in view of the significant time needed for preparation, we proposed to the **MNB to expect the application of these rules only from 1 July 2018**. We specifically dealt with the data protection aspects of debt recovery. We requested an oral consultation in this matter. This took place in November: a separate consultation was held with credit institutions and debt collection agencies.

## **Reporting**

The Working Group cooperating in setting up the **Uniform Central Bank Loan Register (HITREG)** held three meetings in the last quarter of 2017. Bank experts highlighted the short roll-out timescale, in particular with regard to the preparation time after the adoption of the decree. The MNB showed flexibility in connection with the extension of the deadline for the start of data collection and it will consider the possibility to extend the range of reporting agents gradually. No agreement was reached on the exact deadline; at the same time all agreed that this decree should be finalised as soon as possible, and reporting agents will be able to assign suitable resources for the developments only after that.

All participants supported data collection on portfolios rather than data collection on portfolio changes. According to past experience, in this way data accuracy can be ensured more easily and their correctness can be back-tested. The MNB accepted the concept of portfolio data collection.

At the end of November 2017, *MNB Decree 33/2017. (XI. 30.) on the amendment of MNB Decree 39/2016. (X. 11.) on the Prudential Requirements Pertaining to Non-performing Exposures and Restructured Debts* was published. During the consultation on this decree, we requested guidance from the legislator on **interpreting** the IFRS 9 rules and **non performing obligation** under the decree, which arrived upon the publication of the decree.

MNB Recommendation No. *13/2017. (XI.30) on specific requirements of the publication practice followed by credit institutions and investment firms* has also been published on the last day in November, with a consultation table attached. This latter contains detailed responses and explanations provided by the MNB to the proposals and comments from the Banking Association's members.

## **VII. Payments**

### **Preparing for the PSD2**

The implementation of the new Payments Service Directive presented our members and working groups with three groups of tasks:

- **the financial omnibus act – feedback** on the four draft legislations for implementation, especially the Payments act<sup>5</sup>, which we completed before the legislation’s government approval and sent it to the legislator;
- **feedback on the MNB decree** for the practical application of these laws, which has already been complemented by the regulations on introducing instant payment systems in the current legislative phase;
- the **joint interpretation of the 12 EBA regulatory technical standards (RTS) and guidelines**, which are set out by the directive and must be applied to banks directly. To achieve this we organized a comprehensive conference with 120 participants from banks. At the conference five different HBA working groups (Payments, Bank Cards, IT Security, SEPA, and Anti-Fraud) discussed in detail the tasks associated with the EBA documents. With the help of the EBF, we also followed the EU debate on the most important draft EBA regulatory technical standard (on the regulation of strong customer authentication (SCA) and information flow between service providers). The debate on the fundamental issues of the accessibility of non-payments related customer data by a third party service provider (screen scraping) still continues at the highest EU level. The Commission has already passed the previously mentioned RTS to the European Parliament and Council. They have 3 months to finalize it; therefore the earliest time the standard may be adopted is the end of Q1 in 2018.

Although they do so with a delay, domestic legislators are completing their tasks; the official translation of the EBA standards and guidelines however are not yet available.

Through the advocacy work carried out during the legislative process we managed to achieve for the legislation to clarify that the new services introduced together with PSD2 must only be provided in full after the EBA standards that include their security elements are disclosed and adequate time is granted for preparation. Another result we achieved is that banks will not have to bear the legal consequences of the delayed implementation brought about by the government.

When PSD1 was introduced, the banking community regarded the Banking Association’s work materials to aid the interpretation/application of the domestically created legislation as successful. Thus, following the same example, the Payments working group established a **professional sub-working group** within itself, which will compile an **Interpretation Guide for PSD2**.

## Developments in connection with Instant Payment Systems

With the participation of the Banking Association both the four working groups and their seven sub-working groups have been filled up with banking experts for the project. All sub-working groups have started operating; their work is to review, process and make preparations for necessary decisions on regulatory and information issues concerning the business, liquidity, IT, testing, security, service provider and state payments aspects of the model.

We must emphasize that the Regulatory working group has already finished its task and has through *MNB decree Nr. 35/2017 (XII.14.) on payment services* published the **legal rules applying to instant payments, in addition to the modifications and additions made necessary by PSD2**. MNB gave the payment service providers concerned (our credit institution members) the opportunity to comment on the draft decree. As a result they accepted our proposals on **secondary account identifiers, payment request and system maintenance**, and have included them in the decree.

The Banking Association participated in the **extension process of the License Agreement** (regarding the use of the SCT Rulebook) previously made with the European Payments Council in connection with the IG2, which concerns the use of the HCT Inst Rulebook by domestic instant payment systems.

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<sup>5</sup> Act LXXV of 2009 on the Pursuit of the Business of Payment Services

The project also has other tangible results: the **HCT Inst Rulebook**, the **Secondary Account Identifier Rulebook** and the **Payment Request Rulebook** have all been published. The first version of these has also been translated into English. GIRO Zrt. has announced the tender for its core system, as a result of which by early 2018 the supplier will already have probably been chosen as well.

In addition to the project's professional implications, it is also very important to consciously prepare and inform its audience; that is why proper communication is of essential importance. At its meetings, the Information working group has started work on defining the project's communication level and channels, mapping out its target groups and determining who the communicators will be. The relevant information will be summarized in the form of a communication strategy and will serve the basis for the project's communication activity, and the message bases needed for developmental steps. The WG is currently working on the version of the communication strategy that will be submitted to the Project Steering Committee.

## Bank Cards

According to MNB's data for the third quarter of 2017, the **network of places that accept bank cards has grown significantly**, with the number of physical places increasing by 6.5% and the number of terminals that operate in these places increasing by 6%. It is partly due to this that bank card payments have increased by 25%, with the faster and modern contactless technology accounting for 69%. At the same time the ratio of bank card fraud decreased in proportion to the number of payments, thus bank cards became an even safer method of payment for consumers.

Concerning the **chargeback procedure**, in the summer, the Banking Association drew the legislator's and the central bank's professional department's attention to the identified risks and **possible management** of situations that may arise in the event **of insolvency on the intermediary's part**. According to the response received from MNB in the fall, this cannot be treated through a decree, but requires legislative action; however it does not believe that any limitation would be justified. The MNE has not yet sent us a reply on this issue.

The Bank Cards working group supported the preparation process for the PSD2 through continued attention and active work; we sent our questions to the card companies in written form. At the working group's meeting in December **MNB's director responsible for financial infrastructure and his colleagues granted the opportunity to consult on questions that arose about bank cards**. Another topic at the meeting was presenting and processing the recently published MNB study on **"Digital Transitions in payments – 5 aspects to help banks adapt successfully"**, as well as information on the soon-to-be-altered payments tables. In November the working group invited a guest presenter to help deal with the main card issues in the upcoming GDPR<sup>6</sup> data management/data protection regulation.

In the fall of 2017 the MNE announced a new application round for the POS terminal installing project. In response to the request of our member banks concerned, we contacted the relevant professional department of the Ministry with our interpretive questions, in order to ensure that our member banks are accurately informed about the conditions before they take part in the developmental project. The tender however ended sooner than the original deadline stated, as the number of supported terminals was fully exhausted. The list of winner institutions for the second round is not yet available. On December 30, 2017 the completion deadline for the first round was moved from December 31<sup>st</sup> to April 15<sup>th</sup>.

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<sup>6</sup> General Data Protection Regulation



On November 16, 2017 at the conference of the Hungarian Association of Vending Machines (Magyar Ital- és Áruautomata Szövetség) entitled “Operator-free solutions”, the HBA helped spread cash-free payment solutions for automatic equipment through its presentation.

Europol published its **annual comprehensive study on ATM attacks**. On-site physical ATM attacks (previously: explosions, removing the ATM from its place; currently: jackpotting, blackboxing) are now giving way to virtual attacks. The first ATM malware was discovered in 2009 (Skimer), and malware attacks have been growing more frequent ever since (e.g.: Ploutus, Alice, Tyupkin). Due to the shift towards the online world, it is worth dedicating more and more attention to **virtual defenses**.

Prevention and effective cooperation with authorities are key factors in ensuring bank card and ATM security. In order to promote this, the HBA’s Board made a decision to **join EAST** (the European Association for Secure Transactions) from 2018. Since it was founded in 2004, EAST has been publishing studies and summaries in connection with ATM and transaction security issues and organizing international consultation events for its members, which may also be especially useful due to the international fraud migration visible that concerns bank cards. With regard to authorities, Hungary is represented in EAST by the National Bureau of Investigation.

#### **Providing feedback on MNB’s cash and fee policy concept**

As proposed by the Cash working group, the Banking Association contacted MNB’s Cash and logistics department through a letter, in connection with the **new fee policy concept, which they plan to apply in H2 of 2018**. The concept aims to in part increase the ratio of small denomination banknotes in payments and at the same time, in order to preserve the quality of these bills, it aims to have them go through the central bank as often as possible. To promote this, **MNB wishes to decrease the cash handling fee of small denomination banknotes** (500, 1000, 2000, 5000), which it will compensate for by **raising the handling fee of the 10,000 and 20,000 banknotes**.

Banks’ payments experts are of the opinion that this is the wrong change to make, as **final demand i.e. client demand for small denomination banknotes is low**: a circumstance that not even the central bank can influence significantly. If the central bank wants to collect these bills more frequently for quality control, then it has to provide special incentives to banks, in order to have them periodically deliver and collect small denomination banknotes. Raising the central bank fee of large denomination banknotes may also be damaging, as it will slow down the flow of the bills into the central bank and lead to worse quality cash.

The Banking Association’s letter proposed to have state support for diffusing cash-in machines that professionals regard as successful at maintaining the quality of cash, and also indicated that the sector deems the increase in contactless payment (as an alternative to small denomination banknotes) a positive tendency.

#### **The annual global conference (SIBOS) of SWIFT**

After six years, SIBOS was once again held in Toronto, Canada. Participants numbered 8100 this year, making this the largest SWIFT conference in the Americas to date. This year’s motto chosen by organizers was “**Building for the Future**”, therefore forward-looking, innovative solutions received a key role. The **Customer Security Program** (CSP) received special attention and was a quintessential topic at both the user and member group chairperson meetings and the conference. SWIFT gave detailed information on the tasks to be carried out for the CSP and emphasized the **fundamental importance of mandatory self-assessment** (something which also concerns our members). By the end of the year, CSP will have reached an important milestone; meeting the requirements is a priority task for the entire global community, including our national User and Member Group as well.

The four lead topics at the conference were **cyber security, artificial intelligence, geopolitical and regulatory changes**, as well as **data and identity**. Within these topics special attention was dedicated to SWIFT's fraud prevention, AML<sup>7</sup> filtering, KYC<sup>8</sup>, and GPI<sup>9</sup> solutions, which makes it possible to trace transaction made through complex payments chains and to manage the life cycle of transactions.

The SWIFTNet Instant Gateway was also unveiled, the introduction of which will probably take place in 2018 and which will grant access to instant Euro payment systems: the EBA Clearing RT1 (SEPA Instant Credit Transfer) and the TIPS (TARGET2 Instant Payment Settlement).

In addition to the above, SWIFT presented its idea for a blockchain-based DLT (Distributed Ledger Technology) still in its testing phase, which may for example grant market actors new opportunities in correspondent banking services.

### Summary of the General Assembly of the European Payments Council

Several important decisions were made at the General Assembly, one of these being the **approval of a new member** (to replace CNCM<sup>10</sup> and BECM<sup>11</sup> from January 1, 2018), as well as **changes concerning the persons in the Board and the General Assembly**. In addition, the Assembly decided on **the 2018 workplan and budget** and approved the **2018 participation fees for valid membership and payment schemes**. In his summary, the Secretary General discussed the workplan and the budget and pointed out that the budget has been reduced by 1.5% since last year. He noted that the fee calculation model has not changed yet for 2018, but that they will revise the payment model membership fees within the same year, and the invoices for 2019 will be based on these. The Secretary General summarized the topics of the ERPB<sup>12</sup> meeting held at the end of November 2017. He also stated that the PIS<sup>13</sup> working group has finished its report regarding the **EBA regulatory and technical standards (RTS) on strong customer identification according to PSD2 and safe communication between payment service providers**, taking note of the clarifying information given by the European Commission. He indicated that a new, so-called Assessment Group has been created with the participation of the Commission, the ECB and hopefully the EBA, the aim of which is to develop a new interface (API) adequate for payment services, which is in line with the RTS requirement system and supports initiatives for individual API standards, as well as the work of the responsible authorities of individual member states. The EPC will take part in the working group as an observer.

Another EIPP<sup>14</sup> also finished its report, which examined the minimum business rule requirements for **presenting electronic invoices and settlements** and the creation of a technical, messaging and message flow standards for this activity by reviewing the individual member state, and pan-European solutions, and the possibility of their integration.

Another important topic on the agenda was the organization of General Assembly meetings, as since the EPC was renewed, the number of General Assembly participants decreased: the rate of participation fell from 80% to around 65%. The EPC will analyze the proposals for improving attendance from a strategic point of view and prepare proposals for decision for the next meeting. For its next meeting, the Assembly chose the following topic of public interest: "PSD2 implementation as a way to Open Banking: status, opportunities and challenges".

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<sup>7</sup> Anti Money Laundering

<sup>8</sup> Know Your Customer

<sup>9</sup> Global Payment Innovation

<sup>10</sup> Confederation Nationale du Credit Mutuel

<sup>11</sup> Banque Européenne du Credit Mutuel

<sup>12</sup> Euro Retail Payments Board

<sup>13</sup> PIS: payment initiation services

<sup>14</sup> E-invoice Payment and Presentment

## **VIII. Taxation, accounting**

The **IFRS Tax sub-working group** held five meetings in the last quarter; in relation to the transition to IFRS's it has examined the **corporate tax and local business tax** effect on issues classified into 29 categories. At the end of the year we invited the expert from the Ministry for National Economy for consultation, to discuss any open issues. Industry consultations are expected to take place in February 2018.

In November an amending act has changed the deadline for self-revisions to be submitted for purposes **including** the expenditure spent on support for team spectator sports in **the special tax on financial institutions** from 10 September to 10 December. In this way, the affected entities could obtain support and tax rebates over a wider range.

On 23 November 2017 Act CLIX of 2017 was published, containing amendments to Act XXXVII of 2013 on certain rules for international administrative cooperation in taxation and other public burden matters (Tax Cooperation Act), in which **the list of states newly joining the information exchange on financial accounts as of 1 January 2018** was published. In order to comply with the **customer screening and declaration requirements** set out in the Tax Cooperation Act, banks needed to further develop their systems, since from 1 January 2018 the tax identifier is mandatorily to be recorded for account opening customers with tax domicile in newly joined states. For 12 out of the 16 newly joined states, no information is published on the requirements of the format of tax identifiers, either on the official OECD website or in the Official Journal of the European Union. The Banking Association contacted the National Tax and Customs Administration and we had already received the necessary information from it in December.

As a continuation of the work commenced with the Tax Administration in September 2017, in the fourth quarter member organizations were granted another opportunity to make their views known on the 2017 and 2018 reporting and tax return forms affecting the sector (such as their tax return on the financial transaction tax, on the special tax for financial institutions or FATCA reporting).

On 11 December the European Commission published the **Code of Conduct on Withholding Tax**, in which it collected methods to improve the efficiency of withholding tax procedures, primarily in the field of tax refund. In order to prevent double taxation they suggest transparent, standardized, user friendly digital solutions, also keeping the interests and options of small investors in mind. The implementation of this Code is voluntary for Member States.

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

### **Communications**

Q4 of 2017 was an ordinary period for communications, with a **media interest of average intensity**. According to our statistics, during the quarter we were featured in online media 108 times, 25 times in printed media and 9 times in electronic media. Altogether, the Hungarian Banking Association was featured in Hungarian media 142 times, informing the media and the public about the sector's professional views.

In addition to **supporting the MNB campaign to inform clients** about Certified Consumer-Friendly Housing Loans, with the help of police experts we drew attention to **online bank card fraud and its prevention** at our joint press conference with the Budapest Police Department. We also refuted any **concerns regarding potential contactless card fraud**. In correspondence with the international

EMMA3 informational campaign organized by EUROPOL, from late November (and with the active support of our member banks) we aim to draw attention to the dangers of becoming a “straw man” and the consequences of getting *involved in money laundering*. The *presidential interview* compiled by the Reuters news agency summarized the banking sector’s current state towards international media. Several newspaper reporters have contacted us in connection with the implementation of PSD2 in 2018; we therefore also discussed future developmental directions of the banking sector and the visible and potential effects of digitalization in our statements.

### **Money Week – preparing for the 2017/2018 school year**

The Money Week program series will take place from March 5<sup>th</sup> to 9<sup>th</sup> in Hungary, with its non-traditional classes focusing on *lending as a financial topic* (“Becoming loan-savvy”) and *business ideas and collaboration as an entrepreneurial topic*. During the program, financial curriculum materials from previous years will once again become available. Experts have compiled three different curricula in the topic of finance for various age groups and two for the topic of enterprises. The preparatory and teaching materials (guides, videos) will be available online at [www.penz7.hu](http://www.penz7.hu) to all teachers who have registered. The primary accompanying program of the Money Week will be a *Europe-wide financial awareness quiz in 2018*, initiated by the European Banking Federation. Based on preliminary applications, 26 countries will participate in this, including Hungary. Another important element of the 2018 program will be the Money Week Professional Day, held at the University of Miskolc. The event will be linked with the opening of the first regional Fintelligence Financial Literacy Center.

The agreement on the Money Week program series will be signed on November 9, 2017 in the Library of the MNE, by the Ministry of Human Capacities, the Ministry for National Economy, the Money Compass Foundation, Junior Achievement Hungary and the Hungarian Banking Association. The event will be open to the media.

### **Conference for the 150<sup>th</sup> anniversary of the establishment of the Hungarian General Credit Bank**

On October 19, 2017 the Ministry for National Economy and the Hungarian Banking Association held a joint conference on occasion of the 150<sup>th</sup> anniversary of the Hungarian General Credit Bank’s (MÁH) establishment. The Hungarian General Credit Bank began its operations in Pest-Buda in October of 1867, a few months after the Austro-Hungarian Compromise. MÁH was one of the driving engines of the development that took place in Hungary before World War I, and later played a key role in restarting the economy after the Treaty of Trianon. The bank was allowed to operate for 80 years, until nationalization in 1947 sealed its fate. The anniversary conference was held on József nádor square, in the building of the Ministry for National Economy, which was originally built in 1913 and once served as the headquarters of MÁH. Minister Mihály Varga and Vice-President András Becsei opened the ceremony and represented the Hungarian government and the Hungarian Banking Association, respectively. Minister Varga emphasized “A strong financial sector that keeps the long term interests of our country in mind may greatly help Hungary move forward. This financial institution and its defining individuals who have played a prominent part in Hungarian economic history followed a patriotic economic principle, which continued to serve the country’s interests even in the most difficult times, and thus historically proved that a financial policy based on national interests also serves to promote the economy.”

The audience assembled in the hall of the historical building consisted of ministry and bank officials, and economic and financial experts.

## **The AFCA Conference in Budapest**

The agreement concluded by the Asian Financial Cooperation Association (AFCA) and the Hungarian Banking Association signals a new chapter in Chinese-Hungarian cooperation, said Minister for National Economy Mihály Varga at the organization's high level panel discussion and financial leaders' forum in Budapest. The Minister for National economy also added "AFCA has decided to use Hungary as a bridge for fortifying relations with Europe, and the Memorandum of Understanding signed by the China Banking Association and the Hungarian Banking Association will hopefully prove to be as successful an initiative as the Budapest clearing house of the Bank of China is". In the official MNE communication, published on 29 November 2017 he pointed out that "when we were thinking of the global economy today we were no longer thinking of individual countries but of continents and their relations. That is why it is important for us that countries which join AFCA do so with the intention of ensuring global financial stability".

The professional cooperation between the banking associations and the banking sectors of the countries continues after the experience gained from the successful two-day event, coordinated by Dr. Levente Kovács, the Hungarian Banking Association's Secretary General and the only European Vice Chairman of AFCA's Executive Board.

## **Developments related to the Standing Arbitration Court of the Money and Capital Markets**

On 31 December 2017 the Standing Arbitration Court of the Money and Capital Markets **has been dissolved with no successor** under *Act LX of 2017 on Arbitration*.

Files of pending cases were handed over by the dissolved court of arbitration to the Secretariat of the permanent commercial Arbitration Court attached to the Hungarian Chamber of Commerce and Industry.

In the fourth quarter legal and financial tasks related to the dissolution have been completed; the process was closed by the set deadline.

The Hungarian Banking Association took part in the preparatory work for the new Court of Arbitration, with the aim of developing the policies and procedures for the new Commercial Court of Arbitration.

## **V8 cooperation – A broader dialog**

At their meeting in early Summer, the V6 regional banking associations (Croatia, Czech Republic, Hungary, Slovakia, Slovenia and Poland) made the decision to invite Bulgaria's and Romania's banking associations to their consultation forums, and thereby extend the number collaborating member states to 8. Both associations accepted the invitation and were already present as participants at the consultation in November on the current regulatory and market developmental trends. Based on the initiatives decided on at the meeting, the V8 collaborated as follows:

- A questionnaire was compiled on current local regulatory issues and the representation of institutions, in order to gain better knowledge of the individual markets and banking associations.
- With regard to the increasingly problematic issue of FX loans in Slovenia, other banking associations with similar issues shared their experiences.
- At the initiative of the Romanian banking association, the participants recounted their own experiences regarding the implementation of the EU Payment Accounts Directive.
- At the initiative of the Bulgarian banking association, local solutions in connection with the financial supervisory structure were circulated.
- The Romanian banking association made an initiative concerning the continued data flow between V8 members; the review of this is currently in progress.

## Receiving the Estonian Banking Association's delegation

On November 2-3, 2017 the Estonian Banking Association's leaders paid a professional visit to the Hungarian Banking Association (the invitation and organization was managed by the HBA). The delegates came to Budapest to gain comprehensive insight into the Hungarian economy, the Hungarian banking sector and the current situation of the capital market not just from a banking aspect but also from a regulatory point of view. Furthermore, they were interested in concrete topics, such as anti-money laundering, payments, taxation, as well as regulatory and other issues, potential problems and their management, solution in Hungary.

On the first day, the delegation was acquainted with the colleagues of the Hungarian Banking Association and the work done at the Association, and visited the central bank of Hungary and the Budapest Stock Exchange. They listened to presentations on how the two institutions operate, on the current situation of the Hungarian economy and the banking sector and on the investment environment. The delegation also paid a visit to the head office of MKB Bank, where they had the chance to witness first hand how a Hungarian bank functions. On the second day, the Estonian delegation was received at the Ministry for National Economy and its members were granted an extensive view of the supervisory approach to the Hungarian economy. At the OK Center for Education, Mr. András Becsei, Vice-President held a presentation on the current status of the Hungarian banking sector.

The delegation expressed its thanks for the Hungarian Banking Association's successful programs.

## Other working committees and working groups

### ○ *Data Protection Committee*

In the October meeting of the Data Protection Committee, we hosted dr. Szabó Endre Győző, the Deputy President of the National Data Protection and Freedom of Information Authority (NAIH) who held a presentation on **the preparatory tasks for the General Data Protection Regulation (GDPR)** and the **function of the Code of Conduct regulated in the GDPR**, and the possible ways of creating it. At the end of the presentation, other data protection issues were also discussed. In its November meeting we reviewed the **EU's Article 29 Working Party recommendation on profiling and administrative fines**. The topic of the December meeting was the **Article 29 Working Party recommendation on incident reporting**.

On 21 November we took part, together with the Chairman of the Data Protection Committee, in the **expert consultation convened at the Ministry of Justice in the context of the GDPR implementation in Member States**. We obtained an overview on the requirements related to the amendment of the Info Act and that the **Government intends to revise the horizontal and sectoral amendments related to data protection reform**. Market players were therefore requested to make drafting proposals to amend sectoral laws, as well as to try to outline the economic effects of the GDPR application on market players. Taking into account the **uniform text** submitted in early December, the committee completed its proposal on the amendment of sectoral laws in time.

In December the members of the committee took part in the last conference for data protection officers organized by the NAIH, where we could hear useful presentations from NAIH managers and focusing on the preparations for the GDPR.

### ○ *Working Group on Agriculture*

group's Tresó István, Executive Director of K&H Bank Zrt's Agro and Food Industry At the chairman's election held at the Q4 meeting of the Working Group on Agriculture the working Business Development Department, was elected as chairman of the working group. At this meeting, the representatives of the Ministry of Agriculture made a presentation on the preliminary Hungarian

position on the future of the **Common Agricultural Policy**, and on the current issues of greening. In addition to this, the representative of the National Food Chain Safety Office reported on the expected effects of the African swine fever in Hungary and the related government measures.

The Working Group submitted its proposal to the State Aid Monitoring Office requesting it examine the possibility of issuing a new aid certificate in the event that the initial **aid intensity**, set out in the initial aid document, has decreased due to the increase in the investment costs. The Office stated in its reply that this issue requires consultation with the European Commission.

The Working Group submitted its proposed amendments to the Cabinet in connection with the **Information on the possibility to establish a mortgage in the context of the calls by the Rural Development Program**. On this basis, the Cabinet ensures the extension of the mortgage establishment as follows: prefinancing loan for investment aid; it can be registered as collateral for a working capital loan; and, in the event of a bank guarantee, the financing bank can establish a mortgage.

- *The launch of the Internal Auditors working group*

The Internal Auditors working group (founded in line with the Board's resolution) held its inaugural meeting on October 18, 2017. Róbert Kollár (K&H Bank) will be the Chair of the working group for the first year (appointed by the Secretary General), while after him members will choose the Chair in the usual manner.

The working group **decided on its one-year work plan** and members have compiled the topics on which the working group wishes to work in the medium term. In certain areas the application of a **risk-based approach** gains priority over the current annual and quarterly auditing obligations. The two most important topics (obligations to audit outsourced activities, and issues related to internal auditing in line with IRA Section 96 Article 3) have already been discussed at the working group's first two meetings. The request for a resolution to reinforce the working group's position has been completed for both topics.

In November 2017, the working group's representatives held an in-person consultation with the leaders of MNB's Capital Market Supervisory Head Department with regard to the second topic and the relevant IRA, on the safeguarding officer position, which has newly been introduced in the MiFID II regulation. Based on this consultation, the HBA sent a request for a resolution to the Supervisory Authority.

HBA's representatives pointed out the problems that might arise when operative auditing tasks are connected to internal control. In order to be able to carry out his or her task of independently auditing internal control for the client instrument protection function as well, the safeguarding officer must be put in a department that is independent from internal control.

- *The adoption of the Compliance Best Practice Code*

In autumn 2016 the members of the Compliance working group decided on compiling a **Compliance Best Practice Code**, on its concept and the topics to be regulated. Working group members divided the elaboration of individual topics among themselves; nine institutions sent their recommendation for the text of each chapter.

The members agreed to include the best practice in the market today and to also consider international guidelines, primarily leaning on the experience of countries that are also represented in the Hungarian market. The document therefore does not wish to summarize the "common" practice solutions currently present in all institutions, but rather aims to determine a direction to be followed in the future by collecting the most forward-thinking solutions from all institutions.

By complementing the mandatory provisions of the legislative requirements on compliance activities that are in force and the content of the recommendations issued by the Supervisory Authority, the Code may help to diffuse a **recommended practice with a wider scope of application**. Thus our members may manage compliance risk much more effectively, if their compliance function follows the recommendations laid down in the Code.

After it was approved by the Board, the Secretary General published the Code as a **recommendation by the Banking Association, which does not require accession**. The Code has been accessible on the Banking Association's website since its adoption.

Depending on the letters of intent received from institutions, there will be a decision made within the coming year on whether the Code should be issued as a recommendation requiring accession or not. Members of the Compliance working group will collect the letters of intent.

- *The launch of the Equal Treatment sub-working group*

In accordance with the decision of the Board, on November 14, 2017, the Banking Association's **"Equal Treatment" sub-working group** was called to meet for the first time, to participate in the activities of the Communications working group. Vilmos Freisleben, head of MNB's Consumer Protection directorate gave an opening presentation at the working group's first meeting. According to what was said, MNB is planning to conduct a primarily supportive, follow-up type supervision with regard to equal treatment. The main requirement is that the supervised institutions, according to their developed strategy, dedicate conscious attention to achieving the highest level solutions possible for **guaranteeing equal treatment to customers living with disabilities**. If need be they may also apply a step-by-step developmental approach.

- *The EXIM sub-working group*

At the EXIM sub-working group meeting in Q4, EXIM's representatives discussed the changes in the rule system of the Future Exporters Program and spoke of the introduction of two new products: the **JEA domestic current asset loan** framework-type products and the **JEA domestic leasing** framework-type products. The working group commented on the individual refinancing sample contracts for the JEA program and the product descriptions for domestic investment loans and domestic current asset loans (individual and refinancing credit limits), which became available on December 15, 2017. Furthermore, it sent its recommendations for the **guidelines to the state subsidy focused regulations on competition improving schemes and refinancing products**, which is also in effect since December 15<sup>th</sup>. The individual sample contracts and the guidelines to be applied were both modified based on the comments made by the working group.

- *Credit guarantee working group*

At the Credit Guarantee working group's meeting in Q4, Garantiqa Hitelgarancia Zrt.'s representatives **informed us about Garantiqa's expanded product portfolio** and announced the introduction of the European Investment Fund's (EIF) **COSME LGF<sup>15</sup>** program. They can provide guarantee for a **loan of HUF 80 billion over the course of three years** within the framework of this program. They are providing guarantee for individual transactions from October 16, 2017. In December 2017 the portfolio guarantee was also introduced. In the case of individual transactions and portfolio guarantees, Garantiqa will provide a guarantee of 85-90%.

Working group members believe that the program is a particularly suitable instrument for supporting SME lending activity. With regard to the fact that in the practice of banks the perception of COSME counterguarantee may differ greatly during capital requirement calculation, Garantiqa wishes to

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<sup>15</sup> Competitiveness of Enterprises and Small and Medium-sized Enterprises, Loan Guarantee Facility



provide its partners with all the necessary information for realizing the capital calculation, in a way that gives them adequate flexibility within the relevant regulatory framework. In its Terms of Business, Garantiqa undertook to notify its bank partners before it reaches the COSME counterparty limit.

- *Mortgage Bank Working Group*

In Q4 2017 the text of the **EU legislative act on Covered bonds** was not published; however, the working group communicated its position to the affected institutions. It stated that it considers the directive level regulation indicated by the Commission and the maintenance of national good practices as a positive legislative direction. The Working Group will carry out further consultation on specific parameters (excess collateral, LTV limits, frequency, stress test) when the text of the legal act has been published.

**BMBX-indices** With the view to further support the recovery in the mortgage bond market, the MNB and the Stock Exchange established three new mortgage bond indices. Mortgage banks were invited to the consultations on the development of indices. Indices have been introduced in December, for the time being as an experiment. The function of these indices, as intended by the central bank, is to provide more information to investors, and to facilitate the pricing of mortgage bonds and evaluating the performance of mortgage bond portfolios.

**The draft recommendation by the central bank of Hungary on the management of real estate related risks of financial institutions:** In November the MNB initiated consultations with market players in the context of its expectations of real estate-related risk management by financial institutions. In its observations, the Working Group indicated that the Recommendation sets expectations **with regard to the methodological requirements for real estate appraisal** that are different from the **legislation applied on a mandatory basis so far by Mortgage Banks (Decreets 25/1997 PM and 54/1997 FM), and the international valuation standards** (for example comparative use of data; value correction factors; valuation methods per real estate type; unnecessary restrictions on the application of validity and limitation conditions). In addition, the Working Group indicated its concerns that the Recommendation sets excessive documentation expectations in its provisions on documentation collection and recording processes (for example the documented availability of the input parameters for the DCF model, unavailable market benchmark references, a practice unlawful from the data protection point of view). All the above are combined with a data requirement with less relevance for the valuation (for example to determine the exact construction year). The Working Group proposed the deletion and addition of numerous provisions.

- *Working Group on Leasing*

In Q4 the Working Group on Leasing held a consultation with the representatives of the Deputy State Secretariat in Charge of Record Keeping at the Ministry of Interior, Idomsoft Zrt. and GIRO Zrt in connection with **the development needs for the GIRinfo service**. Currently banks and financial institutions can make inquiries via the GIRO system, for a vehicle registration number and make, and/or registration number and chassis number. Leasing companies usually become aware of the vehicles' registration numbers only after they are put into service, and therefore we requested a query option by specifying **chassis number and make** in the vehicle register. In this consultation, the parties discussed details of the feasibility of the development needs and the competent persons affected by this issue. In the opinion of the representative of the Transport Registration Department, this request can be met from the authority's point of view, since these data can be considered sufficient to identify the subject of the data request. Banks and financial institutions are entitled to data retrieval under Section 21 (a) of the Act on Official Transport Registers, and the authorisation

for data retrieval to them took place via GIRO Zrt. as data processor. However, the GIRO system currently is not suitable for such queries and therefore GIRO Zrt. undertook to perform the user-side developments. After this discussion, the working group developed and submitted to GIRO Zrt the data retrieval request for the new type of queries. The members of the working group raised a couple of topics not related to inquiries based on chassis number that were forwarded to the competent areas within the Ministry in writing.

The Leasing Working Group was consulted on the domestic leasing refinancing framework product developed by EXIM. Based on their observations, the product documentation that became effective on 15 December 2017 was amended. Further detailed information and training on the product will take place in early 2018.

- *Litigation Working Group (Nagyvárad Court of Appeal)*

In its October meeting, the Litigation Working Group dealing with invalidity cases addressed the judgment handed down by the European Court of Justice in a Romanian FX loan case (C-186/16). The preliminary ruling procedure was referred by the Nagyvárad Court of Appeal (Curtea de Apel Oradea) in connection with a CHF denominated loan agreement concluded by the Banca Românească SA and asked **to what extent is a bank required to inform customers of the exchange rate risk involved in loans denominated in foreign currency:**

In its judgment, the Luxemburg Court concluded that the challenged term constitutes the main subject matter of the loan agreement and therefore its unfairness can only be examined with regard to the Directive if this term was not drafted in plain intelligible language. Namely, an obligation to repay a loan in a specified currency qualifies as an essential obligation characterising that contract, since this obligation does not relate to an additional element affecting the method of payment but to the nature of the debtor's obligation. It follows from the requirement to draft contractual clauses in plain intelligible language that the contract must clearly indicate the operation of mechanisms referred to in the relevant clause. The consumer should be in a position to evaluate, on the basis of clear, intelligible criteria, the economic consequences for him that derive from it. **The national court has to examine whether this information was appropriate.**

At the Working Group meeting, Gábor Gadó and Pál Sonnevend presented a summary of this judgment and its possible effects on the practice of the Curia. They have established that **no element of this judgment makes the amendment of the Curia's practice necessary.** Relevant information must be available upon the conclusion of the contract; and the exact exchange rate developments are outside the foreseeable circumstances. In view of the judgment, this situation **requires no intervention from the legislator and no crisis on the side of law enforcement can be spoken of.**

## **I Global Regulation**

### **I.1 Financial Stability Board (FSB)<sup>16</sup>**

#### **I.1.1 Evaluation of the 2018 work program and reforms**

At its plenary meeting held on October 6<sup>th</sup>, the FSB reviewed its 2018 work program and the further steps to be taken for evaluating the reforms introduced in the wake of the crisis.

- The international post-crisis policy reform agenda is nearly complete, there are only some cases where policies have yet to be fully operationalized.
- Monitoring and publicly reporting on member jurisdictions' implementation of the reforms remains a priority. Post-implementation evaluation of the effects of the reforms is possible in a growing number of areas and regulatory adjustments are possible where needed without compromising the original objectives.
- The FSB is also monitoring and addressing, where needed, new and emerging risks.

In 2018 the FSB will examine the **trends in the financing of infrastructure investment**, including evaluating the effects of financial regulatory reforms on this financing. A component of the study will also examine **intermediation trends by financing (including bank and market-based financing)** by types of borrowers and countries.

The management of business risk and decreasing correspondent banking activities will remain part of the agenda for 2018.

#### **I.1.2 The list of global systemically important banks**

The FSB in consultation with the Basel Committee on Banking Supervision (BCBS) published the **list of global systemically important banks (G-SIBs)** using end-2016 data and the methodology published in July 2013. One more bank has been added to the list (Royal Bank of Canada), and one was removed (Groupe BPCE), therefore the overall **number of G-SIBs remains 30**. Depending on their size, the G-SIBs are required to hold 1-3.5% capital buffers, meet the Total Loss- Absorbing Capacity (TLAC) standards, as well as meet resolvability requirements and higher supervisory expectations. Based on data from 2016, none of the 30 G-SIBs belongs to the 3.5% capital buffer category, while one bank must hold a 2.5%, four a 2%, eight a 1.5% and seventeen a 1% capital buffer. The additional capital buffer requirement must be implemented partially from January 2018 and completely by January 2019.

#### **I.1.3 Consultative documents to promote the implementation of the Key Attributes of Effective Resolution Regimes<sup>17</sup>**

The FSB published two consultative documents on resolution in early November.

The consultative document on **principles in bail-in execution** states that bail-in is a core part of the resolution strategies of global systemically important banks. Bail-in refers to the write-down or conversion of liabilities into equity and helps implement a creditor-financed recapitalization as part of an orderly resolution that minimizes impacts on financial stability, ensures the continuity of critical

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<sup>16</sup> The highest-level international financial regulatory body

<sup>17</sup> Professionals refer to this document (first published in 2011, then updated in 2014) simply as "Key Attributes"

functions, and avoids exposing taxpayers to loss. The consultative document proposes a set of principles to assist authorities implement their resolution strategies. The principles cover the following:

- disclosures on the instruments and liabilities within the scope of bail-in;
- valuations to inform and support the application of bail-in;
- processes to suspend or cancel the listing of securities, to notify creditors and to deliver new securities or tradeable certificates following the entry into resolution;
- securities law and securities exchange requirements during the bail-in;
- processes for transferring governance and control rights and establishing a new board for the firm in resolution;
- market and creditor communications.

The consultative document on the ***funding strategy elements of an implementable resolution plan*** contains the following:

- firm capabilities to support monitoring, reporting and estimating funding needs in resolution and to facilitate execution of the funding strategy;
- the development of a resolution funding plan by the authorities;
- the use of firm assets and private sources of funding;
- access to temporary public sector backstop funding mechanisms and ordinary central bank facilities; and
- information sharing and coordination between authorities.

Responses to the consultative document should be sent to the FSB by February 2, 2018.

#### **I.1.4 Other important FSB documents**

Governance arrangements for the unique product identifier (UPI)

Reforming major interest rate benchmarks

Progress report on the implementation of IBOR reforms

Summary report on financial sector cybersecurity regulations, guidance and supervisory practices

Report on European private pension schemes: functioning, vulnerabilities and future challenges

Report on considering the financial stability implications of artificial intelligence and machine learning

Surveys on incentives to centrally clear OTC derivatives (a joint survey by the FSB, BCBS, CPMI and IOSCO)

## **I.2 Basel Committee on Banking Supervision (BCBS)**

### **I.2.1 Decisions in connection with Basel III**

#### *Finalizing the Basel III reforms*

In early December, the much awaited decision was made by the decision making body of the BCBS, central bank governors and heads of supervision (GHOS) to endorse the remaining Basel III post-crisis regulatory reforms. According to ***Mario Draghi, chairman of GHOS and president of the ECB***, the adoption of the reform package on December 7<sup>th</sup> represents a ***major milestone*** that will make the capital framework more robust and improve confidence in banking systems. Stefan Ingves, chairman of the BCBS said that the reforms will help ***reduce excessive variability in risk-weighted assets and will improve the comparability and transparency of banks' risk-based capital ratios***.

The reform package (the adoption of which was delayed by a year) includes the following elements:

- ***a revised standardized approach for credit risk***, which will improve the robustness and risk sensitivity of the existing approach;

- **revisions to the internal ratings-based approach (IRB) for credit risk**, where the use of the most advanced internally modelled approaches for low-default portfolios will be limited;
- **revisions to the credit valuation adjustment (CVA) framework**, including the removal of the internally modelled approach and the introduction of a revised standardized approach;
- **a revised standardized approach for operational risk**, which will replace the existing standardized approaches and the advanced measurement (AMA) approaches;
- **revisions to the measurement of the leverage ratio and a leverage ratio buffer for G-SIBs**, which will take the form of a Tier 1 capital buffer set at 50% of a G-SIB's risk-weighted capital buffer; and
- **an aggregate output floor**, which will ensure that banks' risk-weighted assets (RWAs) generated by internal models are no lower than 72.5% of RWAs as calculated by the Basel III framework's standardized approaches. Banks will also be required to disclose their RWAs based on these standardized approaches.

The revised standards will take effect from 2022, granting a **lengthy preparation period**. The output floor value of 50% in 2022 will gradually rise to 72.5% from January 1, 2027, with a 5 percentage point increase each year. The Committee also postponed the deadline for the implementation of the fundamental review of the trading book (FRTB) from 2019 to January 1, 2022. Therefore the revised standards will have to be implemented for credit, market and operational risks from 2022 as well. This will give banks enough time to prepare, and the Committee to address certain specific issues related to market risk. The GHOS press release also reaffirms their expectation of **full, timely and consistent implementation** of the new elements of the package, including the minimum capital requirements for market risk. The new package constitutes minimum standards. As such, jurisdictions may elect to adopt more conservative standards. Jurisdictions will be considered compliant with the Basel III framework if they do not implement the internally modelled approaches and instead implement the standardized approaches.

Alongside the above announcement, the Committee also published the **results of a cumulative quantitative impact study**, which does not show significant increase in overall capital requirements, although effects may greatly vary among banks.

In its press release published after the announcement of the decision, the European Banking Federation (EBF) generally welcomed the agreement, however it noted that it may threaten financing in the European economy **by penalizing low-risk exposures, particularly residential mortgages**. It therefore emphasized that an impact study was necessary before the introduction of the framework in Europe.

The European Commission also vouched for the **cumulative impact study**. Prior to the introduction of the framework, the Commission will conduct a **consultation** with member states and other parties concerned. The necessary modifications will be carried out independently from the **risk reduction package in November**.

#### *Decisions related to the NSFR*

The Basel Committee made an important decision at its meeting in October on the **net stable funding ratio's (NSFR) treatment of derivative liabilities**. This decision helped facilitate the ratio's introduction in January 2018. The NSFR assigns a 20% factor to derivative liabilities. The Committee has agreed that at national discretion, jurisdictions may lower the value of this factor, with a floor of 5%.

At its meeting in December, the Basel Committee established a **procedure for issuing technical amendments to its standards**. The Committee defines technical amendments as changes to standards that are not substantial in nature but that cannot be unambiguously resolved based on the

current text. The expectation is that technical amendments will be published for public comment for 45 calendar days. (Technical amendments differ from responses to frequently asked questions (FAQs), which do not require any change to the standards and are therefore published without public consultation. The Committee will continue to publish responses to FAQs in the future.

The Committee published its **first proposed technical amendment** at the same time, which is related to the **treatment of extraordinary monetary policy operations in the NSFR**. To provide greater flexibility in the treatment of extraordinary central bank liquidity-absorbing monetary policy operations, the technical amendment proposes to allow reduced RSF<sup>18</sup> factors for central bank claims with maturity of more than six months.

### **1.2.2 The regulatory treatment of sovereign exposures – discussion paper**

In January 2015, the Basel Committee on Banking Supervision set up a high-level Task Force (TF) on Sovereign Exposures to review the regulatory treatment of sovereign exposures and recommend potential policy options. The BCBS's discussion paper published in December was based on the report prepared by the TF. The Committee's view is that the issues raised by the Task Force and the ideas outlined in this paper are important, and could benefit from a broader discussion. However, at this stage the Committee has not yet reached a consensus to make any changes to the treatment of sovereign exposures, and has therefore decided not to consult on the ideas presented in this paper. The views of interested stakeholders will nevertheless be useful in informing the Committee's longer-term thinking on this issue. There are three sets of risk treatment ideas presented by the TF. The proposed treatments of the first group concern risk weighting:

- the removal of internal ratings-based approach framework for sovereign exposures;
- revised standardized risk weights for sovereign exposures held in both the banking and trading book, including the removal of the national discretion to apply a preferential risk weight for certain sovereign exposures;
- adjustments to the existing credit risk mitigation framework, including the removal of the national discretion to set a zero haircut for certain sovereign repo-style transactions. (The calibrations in the discussion paper are presented only for illustrative purposes.)

The second set of ideas contains regulatory proposals for reducing the concentration of sovereign risks.

The third set of ideas includes proposals for the supervisory review process (Pillar2) treatment and disclosure (Pillar 3) of sovereign exposures.

The Committee formulated 14 concrete questions to define sovereign risks, and their treatment. Responses to these must be submitted by March 9<sup>th</sup>.

### **1.2.3 Other important BCBS documents**

Thirteenth progress report on adoption of the Basel regulatory framework  
Identification and management of step-in risk  
Establishment of BIS's Financial Stability Institute Advisory Board  
Further details on the assessment of G-SIBs  
Consultative document on stress testing principles and a range of practices  
Progress report on supervisory colleges

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<sup>18</sup> required stable funding

## ***II European Regulation***

### **II.1 General Environment**

#### **II.1.1 The European Commission's 2018 work program**

**Strength and Union** are the two key elements of the European Commission's 2018 work program. The program includes several initiatives that look beyond 2025, and therefore way beyond March 30, 2019, when the European Union's member states will number 27. Brexit grants the opportunity to establish a stronger, more united and more democratic Union.

Next year they will complete regulatory work based on the 10 priorities stated by Juncker and adopted by the Commission and the Council. They will thus elaborate the Circular Economy Action Plan (to recycle and renew) and complete the legislative process for the Digital Single Market, the Energy Union, the Capital Markets Union, the Economic and Monetary Union and the Banking Union. An initiative on Fair taxation in the digital economy, a Social fairness, package, and a proposal to improve the EU food supply chain will all contribute to a deeper and fairer internal market with a strengthened industrial base. New targeted measures will be introduced to complete the security union and deliver on the EU agenda on migration and the global strategy, and to strengthen the Union's civil protection mechanism. The long-term objectives serve to create a more united, stronger and more democratic union.

#### **II.1.2 The Council's work program: Building a Future Together**

At the European Council's meeting on 19-20 October, its participants re-stated their commitment to the European project and **unanimously supported** the Council's **agenda** for between now and June 2019 to **strengthen the Union**.

(Leader's Agenda (LA) <https://www.consilium.europa.eu/media/21594/leaders-agenda.pdf>)

In addition to regular meetings to deal with the Brexit issue, the work program's agenda includes the most contentious issues, such as the Eurozone reform, the migration crisis, internal security, trade and the future financing of the EU. Regarding the LA, President Donald Tusk proposed a more direct and more informal work method than before to the prime ministers of the EU. This would allow for confronting the areas where European cooperation does not work well and shed light on the reasons behind it.

The LA is a living document that will be updated and amended as required.

#### **II.1.3 The European Commission's Roadmap for deepening Europe's Economic and Monetary Union**

On December 7<sup>th</sup>, the Commission proposed a package consisting of legislative and non-binding measures for reforming the Eurozone, with the aim of rendering it more resistant to crises in the future. Through this, it delivered on its commitment to deepen the European Economic and Monetary Union, made in its 2017 State of the Union address and the Five Presidents' Report of 2015.

In addition to the Roadmap, the package includes four main initiatives:

1. **A proposal to establish a European Monetary Fund (EMF)**, anchored within the EU's legal framework and built on the well-established financial and institutional structure of the European Stability Mechanism (ESM). The EMF would in the future assist euro area Member States in financial distress. In addition, the EMF would provide the common backstop to the Single Resolution Fund and act as a last resort lender in order to facilitate the orderly resolution of distressed banks.
2. **A proposal to integrate the substance of the Treaty on Stability, Coordination and Governance into the Union legal framework**, taking into account the appropriate flexibility built into the Stability and Growth Pact (member states have made a commitment to this previously).

3. ***A Communication on new budgetary instruments for a stable euro area within the Union framework*** setting out a vision of how certain budgetary functions essential for the euro area and the EU as a whole can be developed within the framework of the EU's public finances. The Communication discusses four specific functions: a) support for structural reforms through a ***reform delivery tool*** and ***technical support*** at the request of member states; b) ***a dedicated convergence facility for member states on their way to joining the euro***; c) ***a backstop for the Banking Union***, and d) ***a stabilization function*** in order to protect investments in the event of large asymmetric shocks. The Commission will present the necessary initiatives in May 2018 in the context of its proposals for the post-2020 Multiannual Financial Framework. The Commission invited the European Parliament and the Council to adopt these proposals by mid-2019.
4. ***A Communication spelling out the possible functions of a European Minister of Economy and Finance*** who could serve as Vice-President of the Commission and chair the Eurogroup (as is possible under the current EU Treaties). By bringing together existing responsibilities and available expertise, this new position would strengthen the coherence, efficiency, transparency and democratic accountability of economic policy-making for the EU and the euro area, in full respect of national competences.

#### **II.1.4 Creating the Task Force on “Doing Less More Efficiently”**

On November 14<sup>th</sup>, European Commission President Jean-Claude Juncker officially announced the establishment of the ***Task Force on Subsidiarity, Proportionality and “Doing Less More Efficiently”***. The Task Force will report to the President by July 15, 2018, making recommendation on how to better apply the principles of subsidiarity and proportionality, identifying policy areas where work could be re-delegated or definitely returned to member states, as well as ways to better involve regional and local authorities in EU policy making and delivery.

The Task Force will started its work on January 1, 2018, and it will be chaired by Frans Timmermans, Commission First Vice-President in charge of Better Regulation, Interinstitutional Relations, the Rule of Law and the Charter of Fundamental Rights. The Task Force will be composed of 9 additional members, with three members from national Parliaments, three from the European Parliament and three from the Committee of the Regions.

#### **II.1.5 The European Central Bank’s report on financial structures**

According to the 2017 ECB report on the structural changes of the financial sector the consolidation of the banking sector continued and the number of credit institutions in the Eurozone declined by 25% between 2008 and 2016. The total assets of domestic euro area banks (EUR 24.2 trillion<sup>19</sup>) showed a 0.5% increase since the end of the previous year, while it showed a decline of 14% compared with 2018. Total bank lending grew by 1%. The regulatory capital ratios continued to rise, mainly on account of capital increases: The CET1 capital ratio stood at 15.4%, up from 14.4% in the previous year. While the median non-performing loan ratio declined further, the stock of NPLs remained persistently high in a number of countries.

The overall size of the euro area financial sector continues to expand (EUR 76.2 trillion in March 2017) and is 6.4 times the GDP. (In 2008 it was 5.3 times the GDP.) The long-term ratio of non-bank financial institutions shows a steady growth. The total assets in the investment fund sector rose by 7% in 2016.

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<sup>19</sup> 10 to the power of 12



## II.2 The Risk Reduction Package (RRP<sup>20</sup>)

### II.2.1 Approving the measures discussed in the fast-track procedure

It was a fundamental requirement to implement some amendment proposals by January 2018, therefore these elements were split from the package, fast-tracked and handled in separate procedures. On behalf of the Council, on November 15, 2017 the Union's ambassadors approved the directive on creditor hierarchy, as well as the regulation on IFRS 9 and large exposures. The agreement made with the European Parliament on October 25<sup>th</sup> contained the following two regulatory proposals:

- A draft directive on the **ranking of unsecured debt instruments in insolvency proceedings** (bank creditor hierarchy);
- A draft regulation on transitional arrangements to **phase in the regulatory capital impact of the IFRS 9 international accounting standard** over the course of several years. The draft regulation will also regulate the **transitional management of large exposure limits regarding sovereignties**.

The FSB regulation on total loss-absorbing capacity (TLAC) to be implemented from 2019 requires that banks hold subordinated instruments (subordination requirement). The draft, which mainly amends article 108 of the BRRD, requires member states to **create a new class of 'non-preferred' senior debt**, eligible to meet the subordination requirement. The instrument will thereby facilitate the application of EU bail-in rules in cross-border situations. A number of member states have amended or are in the process of amending their insolvency laws.

The regulation on the **introduction of IFRS 9 and large exposures** will **mitigate** the potential negative regulatory capital impact on banks due to the introduction of the International Financial Reporting Standard 9. Use of IFRS 9 by banks may however lead to a sudden increase in expected credit loss provisions and a consequent sudden fall in their regulatory capital ratios. Therefore **transitional arrangements** are needed from January 1, 2018, consistent with use of the new accounting standard. The resulting draft regulation will allow banks to **add back to their common equity tier 1** capital a portion of the increased expected credit loss provisions **as extra capital** during a **five-year transitional period**. That added amount will progressively decrease to zero during the course of the transitional period.

The draft regulation also provides for a **three-year phase-out**, and using this, banks will be granted exemption from the large exposure limit for their exposures to public sector debt denominated in the currency of another member state. The exemption is used by banks in several non-Eurozone member states for their euro-denominated holdings of those member states' public debt. The phase-out is intended to **soften the impact of the exemption's termination**.

### II.2.2 Developments concerning the entire Risk Reduction Package

Developments concerning the entire Risk Reduction Package are slow paced. The Swedish Rapporteur (Gunnar Hökmark) published the preliminary report on regulations for crisis management on September 27<sup>th</sup>. In connection with the capital requirement regulation, Peter Simon, the German rapporteur submitted his preliminary report for the CRR2/CRD5 in mid-November. The Estonian presidency prepared compromise proposals for all four legal texts.

In addition to the above, the Estonian presidency prepared a progress report, in which it identified the following key debate issues that arose during the negotiations:

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<sup>20</sup> In November 2016, the Commission disclosed the regulatory amendment package to the Capital Requirements Directive and Regulation (CRDIV/CRR) which also contains proposals for completing the regulation on the Single Resolution Mechanism (SRMR) and the Bank Recovery and Resolution Directive (BRRD).

### **Macroprudential framework and pillar 2**

There is a debate among member states on whether supervisory authorities should be able to impose additional capital requirements for only micro-prudential (on bank-by-bank basis) or macro-prudential risks (applying to the entire sector), as well as whether the additional capital requirement should have a cap, and if so, where that should be.

There is also debate about imposing a capital buffer requirement and its cap for O-SII<sup>21</sup>, as well as other O-SII that operate as subsidiaries.

### **Implementation of Basel Reforms**

Concerning the implementation of the Basel reforms, member states have disagreements regarding the phase-in of the Fundamental Review of the Trading Book (FRTB), its implementation, and concerning the NSFR the management of derivative transactions, as well as repos and reverse repos.

### **Capital and liquidity waivers in CRR**

The CRR proposal makes it possible for supervisors to, under strict conditions, waive the individual application of capital and liquidity requirements within banking groups on a cross-border basis. The majority of member states opposes this and considers it a premature measure, while others consider the waiver reasonable given the current state of the Banking Union.

### **Exemptions from the CRR/CRD**

Two member states have requested their national development banks to become exempted from the implementation as per an existing provision already available for a number of development banks. Another member state has requested the same exemption for its 16 regional promotional banks. The member states agreed that the list of exemptions should remain open, but have expressed concern that the above would exempt a relatively large segment of the banking system of one member state.

### **MREL<sup>22</sup> calibration**

According to some member states the TLAC standard for global systemically important banks (G-SIBs) adopted by the FSB should also be applied to other systemically important institutions (O-SIIs). Member states are severely divided with regard to the content of the MREL requirement set in Pillar 2 and the guidance, as well as the implementation of the limit to be applied in case of breach and the sanctions to be applied in the same situation. In addition, there is debate about linking the MREL requirement and the minimum 8% bail-in rule, as well as about whether the MREL requirement set in Pillar 2 should be met with subordinated instruments or not.

## **II.3 The Banking Union**

### **II.3.1 The European Commission's communication from October 11<sup>th</sup> – Completing the Banking Union by 2018**

On October 11<sup>th</sup>, following Commission president Juncker's state of the Union address in September, the **Commission published a press release on the steps to be taken towards completing the Banking Union by 2018**. The communication presents the progress made so far towards achieving the Banking Union (the establishment of the Single Supervisory Mechanism and the Single Resolution Mechanism) and outlines further measures necessary for completing it. It states that while completing the Banking Union, **risk reduction and risk sharing must be implemented together** (they go hand in hand). With this in mind, in November 2016 the Commission disclosed its risk **reduction package**, which **modifies the Single Rulebook (CRDIV/CRR, SRMR, BRRD)**. The Commission aims to

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<sup>21</sup> Other Systemically Important Institutions

<sup>22</sup> Minimum requirement for own funds and eligible liabilities

renew negotiations on the European Deposit Insurance Scheme (EDIS) and to initiate the creation of a **fiscal backstop** for the Single Resolution Mechanism. The communication discusses in detail the Commission's measures planned to **manage NPLs**. (A comprehensive package for Q1 of 2018 by the Commission to tackle NPLs, the establishment of Asset Management Companies (AMCs), the development of the secondary market for NPLs, the key role of loan servicers, the protection of secured creditors if borrowers do not pay their debt, a statutory prudential backstop regulation to provision for NPLs.) By incentivizing the creation of **Sovereign Bond-Backed Securities (SBBS)**, the Commission will facilitate the diversification of banks' sovereign (government) portfolios and cross-border risk sharing.

(According to the SSM regulation the Commission must evaluate the implementation of the above. Since the supervisory tasks have been taken over by the ECB in November 2014, the Commission evaluated the SSM's operation for the first time.)

### II.3.2 The management of non-performing loans

#### *The ECB addendum to the NPL guidance*

On October 4<sup>th</sup> the ECB published for consultation an **addendum to its guidance to non-performing loans**. According to the addendum as of January 1, 2018 the non-performing exposures must be **registered and traced according to when they became non-performing**. The NPL exposures should also be classified into two categories, depending on whether they are **secured or not**. Banks are expected to provision and calibrate 100% for unsecured exposures that have been non-performing for 2 years. The same applies to secured loans after 7 years of being classified as non-performing. These regulations apply to banks under direct ECB supervision. The requirements are meant to be a **backstop regulation** and will have no operational impact on banks that regularly carry out loss provisioning (as with regard to NPLs, they already possess the 100% provision for loans that have been non-performing for two/seven years by the end of the second/seventh year.)

The ECB proposal made European legislators nervous, as the **European Parliament's representatives believe that the ECB is going beyond its mandate**. The ECB may only impose impairment/provisioning measures on individual banks and cannot create a requirement that applies to all banks, as this is the task of legislators. (The ECB elicited especially harsh reactions from Italian representatives – including the Chair of the European Parliament who is also Italian – as a quarter of the nearly EUR 1000 billion NPL portfolio is held by Italian banks.)

In an independent letter, the EBF also drew attention to the **importance of strictly separating Pillar 1 and Pillar 2 requirements**. The ECB may only impose capital requirements for **individual banks** within the framework of Pillar 2. The measures planned to be taken by the ECB result in a competitive disadvantage for Eurozone banks and question the Single Rulebook as well as legal security. The letter also expresses the EBF's concern that the new requirement would need to be applied to the existing portfolio as well.

#### *The Commission's initiative to address NPL exposures*

In accordance with its communication on completing the Banking Union, in November the Commission also introduced a new initiative for the treatment of NPLs. The **Commission's targeted consultation on the statutory prudential backstops** will only last 20 days (from November 10<sup>th</sup> until the 30<sup>th</sup>), and will aim to **address insufficient provisioning for newly originated loans that turn non-performing**. The Commission proposes to consider at EU-level the introduction of backstop-type prudential regulation within the CRR framework, and to treat insufficient provisioning for non-performing loans through capital deduction.

Along with the above, the European Commission conducted an **Inception Impact Assessment (IAA)** on statutory prudential backstops, in which it included possible options for resolving this problem and highlighted that these options do not determine what the eventual solution would be.

During the consultation the **EBF emphasized** that the situation of NPLs is very diverse across EU member states and, in line with the principles of subsidiarity and proportionality, it seems appropriate to address it at a **member state level under EU general blueprint**. Any prudential backstop, also in combination with the EU directive on business insolvency and IFRS 9 may significantly impact the prices and availability of future credit, it is therefore especially important to **conduct an impact assessment of the combined effect of these proposals**.

### II.3.3 Other developments concerning the Single Supervisory Mechanism (SSM)

As a result of the annual evaluation of the significance of credit institutions (due to the changes in group structures and other developments concerning bank groups) the **number of institutions (significant banks, bank groups) under direct ECB supervision decreased from 125 to 119 in 2017**.

As a result of its increased size, Barclays Bank PLC Frankfurt Branch will be directly supervised by the ECB from January 1, 2018. The banks Raiffeisen-Holding Niederösterreich-Wien registrierte Genossenschaft mit beschränkter Haftung and SEB AG have not met any of the significance criteria for three consecutive calendar years. Consequently, they have both ceased to be identified as significant and supervisory responsibilities will be transferred to the national competent authorities in Austria and Germany respectively. Due to the changes in group structures and their acquisitions, Banco BPI S.A. and Banco Popular Español S.A. became part of other significant banking groups. The Agence Française de Développement returned its license voluntarily, while the licenses of Veneto Banca S.p.A. and Banca Popolare di Vicenza S.p.A. were withdrawn.

After its consultation with the European Central Banks (the SSM supervisory authority), **the EBF wrote a letter in which it asked for the implementation of the FRTB IMA<sup>23</sup> to be postponed by 5 years**. Its request is justified by the need to provide a level playing field (USA). The 5-year (60-month) delay is indicated by the fact that after the adoption of the CRR2 18 months are needed to complete the EBA RTS, another 18 months to implement the banking models, and yet another 24 months for the supervisory review process to be completed.

The ECB announced that it will **change the liquidity assessment ILAAP tables in the next cycle of the Supervisory Review and Evaluation Process (SREP)**. They consulted with banking experts on the details of the changed content. The new tables will apply for the 2018 assessments; the banks concerned will have the chance to get acquainted with the new content beforehand.

In October, the ECB held a consultation on the **guides assessment of license applications and fintech credit institution license applications**. The aim of the consultation is to unify the licensing process, make it more transparent and help applicants in their preparations. The first guide sets out the general process and the requirements for the assessment of licensing requests, while the second one gives operative guidance on the supervisory evaluation of entities with a fintech business model.

The ECB will be the sole authority to be able to grant a banking license in the Eurozone, however it will cooperate closely with national supervisory authorities throughout the licensing process. Since the creation of the SSM, by the end of 2016, the ECB received 68 license applications and authorized the operation of 37 credit institutions. (No license applications were declined, but some were withdrawn, and some are still under assessment.) To manage the increasing number of applications submitted by credit institutions with a fintech business model, the ECB teamed up with the relevant national authorities to create a common approach to the licensing of these banks. One requirement

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<sup>23</sup> Fundamental Review of Trading Book Internal Model Approach

example resulting from this cooperation is the obligation to appoint a Chief Technology Officer as a member of the executive board.

In November, the **ECB held a conference on supervisory reporting**. Here they shared insights on the methods used by national authorities to collect and process supervisory reports as well as their handover to the ECB and the EBA. Measures for improving data quality and the methodology for assessing the data submitted by banks were extensively reviewed.

At the **ECB workshop on recovery planning and crisis management**, ECB officials presented **how much improvement was shown by the 2016 recovery plans compared to those of the previous year** (legal basis, professional support, comparability, meeting the EBA's requirement for minimum values, joint supervisory decisions with regard to groups, number of options, scenarios, etc.). At the same time a lot still needs to be done **to improve the operability of the recovery plans** (the more realistic interpretation of recovery capacity, improving the usability of scenarios in a crisis situation, testing for illiquidity in normal periods, etc.).

#### II.3.4 The Single Resolution Mechanism (SRM)

When the Single Resolution Mechanism (SRM) was set up, member states agreed on the importance of a **common fiscal backstop for the Single Resolution Fund to protect financial stability**. This is to ensure that after private investors have borne losses via bail-in, if needed, the fund has sufficient resources to deal with a major bank resolution, or several bank resolutions occurring in rapid succession. As any costs will be recouped from the banking sector, fiscal neutrality in the medium term is ensured. The Commission's reflection paper on deepening the Economic and Monetary Union identified a credit line from the European Stability Mechanism as the most effective option. This work stream needs to be articulated with the Commission's package of proposals. (This includes a proposal to transform the European Stability Mechanism into a European Monetary Fund.) It will also be important to ensure an efficient decision-making process that will allow for a swift deployment of the backstop in last-resort situations.

In November, the Single Resolution Board (SRB) organized the **sixth Industry Dialogue**. SRB's high ranking representatives held presentations on the following:

- Resolution planning: lessons learnt and way forward;
- The 2017 MREL policy;
- Critical functions and bank reportings;
- Update on the delegated regulation on administrative contributions.

In relation to this, Elke König's SRB Chair's mandate was **renewed for another 5 years**, after its initial three-year period.

Good cooperation between the SRB and the EBF is confirmed by the fact that, with the participation of the SRB's representatives and banking experts, an **SRM expert group** was formed, which held its first meeting in November.

#### II. 3.5 The European Deposit Insurance Scheme (EDIS)

A single deposit insurance scheme is an indispensable, but not yet realized pillar of the Banking Union. It is an important principle that all depositors within the Banking Union should enjoy the same

level of protection, independent of their geographical location. To facilitate the creation of a single European Deposit Insurance Scheme, in October the Commission suggested some **modifications with regard to the phases and the timeline of the deposit insurance scheme**. The proposed ideas try to address diverging views and concerns raised in the European Parliament and the Council. They suggest for discussion the **introduction of EDIS more gradually** compared with the original proposal of November 2015. There would be only **two phases** for creating the deposit insurance scheme: a **more limited reinsurance phase** and then a phase of **coinsurance**. However moving to this second phase would be conditional on progress achieved in reducing risks (above all reducing the non-performing loan portfolio). In the reinsurance phase, EDIS would only provide liquidity coverage to national deposit insurance schemes. This means that it would temporarily provide the means to ensure full payouts in case a bank is in crisis, while national deposit guarantee schemes would need to pay back this support, ensuring that any losses would continue to be covered at national level. In the coinsurance phase EDIS would also progressively cover losses. The specialized press regards the Commission's proposal as a step back as opposed to previous initiatives.

## **II.4 The Commission's consultation on reducing supervisory reporting requirements**

The Commission launched a consultation on reducing the supervisory reporting requirements for the financial sector as part of the so-called fitness check program. According to the previously launched Call for Evidence in September one of the most frequently mentioned regulatory constraints was the exaggerated reporting requirement. The consultation aims to gather evidence on the **cost of compliance with the supervisory reporting requirements** (in force as of the end of 2016), as well as on the **consistency, coherence, effectiveness, efficiency and EU-added value** of those requirements. More specifically, it aims to collect concrete quantitative evidence on investments required to meet the supervisory reporting requirement, and to gather specific examples of inconsistent, redundant or duplicative supervisory reporting requirements. The consultation also seeks feedback on ways in which supervisory reporting could be simplified and streamlined.

The consultation period will end on February 28, 2018.

(The European Banking Federation is also asking for comments on AnaCredit reporting requirements.)

## **II.5 The Capital Markets Union**

### **II.5.1 Developments in connection with the new insolvency law proposal (bankruptcy, preventive restructuring frameworks, and a second chance for enterprises)**

Representatives contributed quite a number of opposing modification proposals to the **preliminary parliamentary report** on this topic, the combining of which may have posed serious difficulties. In early December the Parliament's Committee on Economic and Monetary Affairs (ECON) agreed on the modifications for the proposal. The Committee on Legal Affairs will probably vote on the modifications only in January. In parallel, the Council is also debating the regulatory proposal. According to the information provided, a number of member states would like local courts to have greater power in the restructuring process. An agreement might also be difficult to reach concerning the reduction of the period of the stay.

The **EBF wrote a letter about the insolvency directive proposal to decisionmakers**, in which it drew their attention to the interaction between the action plan for the treatment of non-performing loans (NPLs) and in it the **measures enhancing the protection of secured creditors**, and the **regulation proposal for preventive restructuring**. The efficient protection of creditors' rights including secured creditors renders access to loans easier and less expensive for enterprises and prevents, to some extent, the distorted and abusive use of insolvency procedures. However, several of the

Commission's insolvency proposals (the possible extension of the stay to 12 months, allowing illiquid debtors to access the stay, preventing banks to suspend/terminate revolving credit facilities, allowing the cram down of dissenting secured creditors by secured creditors) would have the opposite impact. Apart from **invalidating the effective risk mitigating capacities of the financial collateral, the regulatory proposal would also increase the capital requirement of banks**. The Commission's proposal (the aim of which is to protect enterprises and work places) would have unintended effects. An insolvency regulation which, in addition to providing adequate protection for creditors, would facilitate the efficient operation of instruments would be more beneficial for the economy in the long term.

The EBF called upon the members concerned of the Commission, the Parliament and the Council to take into consideration the above mentioned angles.

The EBF also stated its detailed opinion in the European Commission's **consultative document on the development of secondary markets for NPLs and protection of secured creditors**.

### II.5.2 Improving corporate bond markets

The European Commission's Expert Group published a study in November 2017 entitled **Improving European Corporate Bond Markets**. Another study on the drivers of corporate bond market liquidity was also published alongside the previous document.

A public hearing took place on November 24<sup>th</sup> where the Commission's representative stated that improving the corporate bond markets, its unification, and rendering it more liquid is fundamental for establishing the Capital Markets Union. Corporate bonds must play a key role in the financing of SMEs and enterprises with lower qualifications. The potential easing of existing prudential regulations can only be executed as a result of adequately convincing impact studies. According to the planned timeline the Commission will hold a public consultation on corporate bonds in Q1 of 2018. This will be followed by a Commission Communication in H2.

### II.6. Bank structural reform

In its newly disclosed work plan the European Commission announced that it will **withdraw its regulation proposal for separating retail banking and investment banking activity (bank structural reform)**, due to lack of a foreseeable agreement. No progress has been made in this area since 2015. The Commission's justified this step by emphasizing that the main financial stability rationale of the proposal has in the meantime been addressed by other regulatory measures in the banking sector, most notably the entry into force of the Banking Union's single supervisory and resolution system. The Parliament's rapporteur firmly agreed with withdrawing the proposal. (Retail banking activity was delimited by the Volcker rule in the United States and by the Vickers reform in Great Britain, however some EU member states have also created similar regulations.)

### II.7 Other important EBA and ESA<sup>24</sup> documents published in the fourth quarter

#### Relevant EBA's and ESAs' documents in Q4

##### **Guidelines**

Final Guidelines on procedures for complaints of alleged infringements of PSD2 (EBA/GL/2017/13)

Final guidance on supervision of significant branches (EBA/GL/2017/14)

Final guidance on connected clients (EBA/GL/2017/15)

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<sup>24</sup> European Supervisory Authorities

Final Guidelines on risk parameters under IRB approach (EBA/GL/2017/16)  
Revised guidelines on retail deposits subject to different outflows for the purposes of liquidity reporting  
Final Guidelines on security measures under PSD2 (EBA/GL/2017/17)

### ***Consultation papers***

Consultation paper on ITS on the provision of information for the purpose of resolution plan (EBA/CP/2017/15)  
Consultation paper on requirements for home-host cooperation under PSD2 (EBA/CP/2017/16)  
Consultation paper on the revised common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing (EBA/CP/2017/18)  
Consultation paper on technical standards specifying the methods of prudential consolidation (EBA/CP/2017/20)  
Consultation paper on draft RTS on the homogeneity of the underlying exposures in securitisation (EBA/CP/2017/21)  
Consultation paper on RTS on risk retention (EBA/CP/2017/22)  
Consultation paper on amended technical standards on benchmarking of internal models (EBA/CP/2017/23)

### ***Discussion Papers***

Discussion Paper on EU implementation of the revised market and counterparty credit risk frameworks (EBA/DP/2017/04)

### ***Regulatory and implementing technical standards***

Draft technical standards to strengthen group-wide management of money laundering and terrorist financing risks (JC/2017/25)  
Amended technical standards on the mapping of ECAIs<sup>25</sup> (JC/2017/61), (JC/2017/67)  
Final draft technical standards on central contact points under PSD2 (EBA/RTS/2017/09)  
Final draft technical standards on the future EBA register under the Payment Services Directive (EBA/RTS/2017/09), (EBA/ITS/2017/07)  
Final draft technical standards amending margin requirements for non-centrally cleared OTC derivatives (JC/2017/79)  
Final draft RTS on simplified obligations under BRRD (EBA/RTS/2017/11)

### ***Opinions***

Guidance to authorities and institutions on Brexit relocations (EBA/OP/2017/12)  
Opinion and Report on regulatory perimeter issues relating to the CRDIV/CRR (EBA/OP/2017/13)  
Report on convergence of supervisory practices (EBA/OP/2017/14)  
Opinion on measures to address macroprudential risk (EBA/OP/2017/15)  
Opinion on the transition from PSD1 to PSD2 (EBA/OP/2017/16)  
Advice to the Commission to disallow the application of the 180 day past due exemption for material exposures (EBA/OP/2017/17)

### ***Recommendations***

Recommendation on the coverage of entities in a group recovery plan (EBA/REC/2017/02)

### ***Reports and other documents***

Work programme for 2018  
Risk Dashboard Data as of Q2 2017  
List of public sector entities for the calculation of capital requirements

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<sup>25</sup> External Credit Assessment Institutions



Final timeline for the 2018 EU-wide stress test  
Overview of Competent Authorities implementation and transposition of the CRD IV package  
Annual assessment of the consistency of internal model outcomes  
Final peer review report on EBA O-SIIs<sup>26</sup> guidelines  
Updated list of CET1 instruments  
Methodology for the 2018 EU-wide stress test  
Council decision on EBA's relocation  
Report on convergence of supervisory practices  
Report on risks and vulnerabilities in the EU banking sector  
Cumulative impact assessment of the Basel reform package  
Revised list of ITS validation rules  
Standardised data templates as a step to reduce NPLs  
Updated ITS package for 2018 benchmarking exercise  
Report on Liquidity Measures under Article 509 (1) of the CRR  
Quantitative update of the MREL report  
Full impact assessment of Basel reforms on EU banks

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<sup>26</sup> Other Systemically Important Institutions