MAGYAR BANKSZÖVETSÉG

HUNGARIAN BANKING ASSOCIATION

Agenda Item No. 4

REPORT

on Activities of the Hungarian Banking Association 2st Quarter 2018

Budapest, August 2018

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I. Executive Summary

In Q2 2018 ***the global economy continued to grow at the same pace as in the previous quarter yet less evenly***, while the growth risks relating to the whole year increased. According to the IMF forecast, the growth figure could reach 3.9% both this year and next year. The rising oil prices, the safeguard duty measures launched by the US and the withdrawals in response pose more and more threats to growth.

The annual real growth rate of the ***US economy*** reached 4.1%, which is almost two percentage points higher than the figure measured in the previous quarter. The main driving force of growth continued to be internal consumption and business investments. After the 25 basis point rate increase introduced by Fed in June, the reference rate reached 2%. During the quarter the USD muscled up against the EUR by more than 6%, but it is not yet reflected in the net export data.

Primarily because the political risks creating tension in the EU (tensions caused by the hard Brexit and migration; and the trade and Middle East Policy of the US) the favourable business mood observed in the ***European Union*** at the end of 2017 continued to deteriorate in the second quarter, but it did not yet entail any considerable fall in performance. The annual growth was 2.1% in the euro zone and 2.2% across the Union. Growth was driven mainly by internal consumption and net exports. The latter was assisted by the weakening of the EUR against the USD and the developing US protectionist measures did not yet impose any obvious restriction yet. The rate of inflation picked up considerably and reached the 2% target set by the European Central Bank by June.

Following the weaker growth figures in Q1, ***in Japan*** the economic growth exceeded the expectations in Q2. The growth rate of the ***Chinese economy*** is gradually decreasing, and was 6.7% on annual basis. As a result of the rising energy prices and the new trade capacities built towards China, the ***Russian*** net exports picked up significantly. The trend is likely to be reflected in the growth figures too.

Despite some stagnation in the global economy and the European upturn, the external market environment of the ***Hungarian economy*** is still favourable. The same is also reflected in the growth figures of Q2; according to the first KSH estimate, the ***GDP grew by 4.4%***. That reflects a small decline from the 4.7% of the previous quarter, but Hungary still finished in a top position within the European Union. On the production side almost all major sectors contributed to the growth, led by the market-based services; while on the consumption side growth may have been pushed by clearly dynamic consumption and investments. In the labour market, employment (69.3%) and unemployment (3.6%) rates improved since last autumn, while the ratio of public employment decreased further. The dynamism of wage increase slowed down a little until May, but still amounted to almost 11 percent over a year. The prices began to rise considerably and, for the first time after more than five years, inflation measured at the end of the quarter exceeded the 3% inflation target set by the MNB by 0.1 percentage point but the core inflation was still lower than targeted. The budget deficit, on a cash basis, calculated until the end of June, turned out to be high, mainly due to refinancing of the projects implemented with Union resources, and exceeded HUF 1,420 billion, which corresponds to 104% of the annual appropriation. However, according to the responsible Ministry, the 2.4% target budget deficit calculated with the EU methodology can still be achieved.

The current account balance and the external financing capacity may also show a durable sufficit, contributing to a decline in external vulnerability. The MNB continued its previous monetary policy and kept the reference interest rate at the same level. According to the position of the Monetary Council, the loose Hungarian monetary policy may be maintained for 5-8 quarters. The EUR-HUF rate rose during the quarter and fluctuated in a wider than generally observed band of HUF 310-328.

In 2018 Q2 the ***aggregated balance sheet total of credit institutions went up by 3.6%*** (HUF 1,341 billion). ***On the liability side,*** each major type of funds grew, apart from the issued securities; the total gross deposit portfolio increased by 4%, and HUF 993 billion. The portfolio of households and

corporate entities increased while it shrank in the case of the state budget and non-monetary financial sectors. Contrary to the trends of the last period, the shortening of the average term of deposit portfolios stopped. Despite the positive results of the quarter, equity continued to decrease slightly (by 0.1%, HUF 5 billion), which may be related partly to dividend payments and partly to accrued dividends.
Within the ***asset portfolio,*** the portfolio of each major asset type increased with the exception of inter-bank deposits. The gross loan portfolio expanded by 5.1% (HUF 973 billion). The depreciation and valuation difference dropped by 4%, while the accumulated interest did not have any relevant impact, so the net loan portfolio in total grew by 5.5% (HUF 1,009 billion). The weakening of the HUF observed during the quarter had a positive impact on the portfolio denominated in HUF. The gross loan portfolio of the non-financial corporate sector made a higher than average increase (by 5.2% and HUF 403 billion); the expansion of household loans was significantly lower (2.4%, HUF 139 billion). The dynamism of the borrowing of the budget sector was more than 10%.
As a result of the above effects, ***the total net loan-to-deposit ratio*** of the credit institution sector fell to 81%, but without the inter-bank loans it increased by almost two percentage points to 78%.
The ***profit*** before tax was down by almost 20% compared to the same period of the previous year and was slightly higher than HUF 320 billion. On an annualised basis, it reflects a 15.6% return on equity and 1.7% return on assets. (Without dividend, provisions and impairment and with HUF 180 billion profit, the return on equity and assets was only 8.7 and 1% respectively.) The net interest income dropped again after an increase in the quarter but the net fee and commission revenues picked up and the income from other financial and investment activities also improved. The administrative expenses went up by more than 5%.

In retail lending the MNB proposal for the introduction of the ***annual percentage rate adjusted with interest expectations (IAPR)*** intends to help consumers receive better information and make better decisions. The bank sector supports the development of a single and exact calculation and disclosure methodology that allows for the comparison of the IAPR figures disclosed by the different banks.
In addition to the introduction of IAPR, the MNB package of measures developed to reduce the interest rate risk of debtors proposed some ***differentiation in the debt limit regulations (payment to income ratio (PTI)) according to the interest period***. According to the amended decree and as a result of the fine tuning of the PTI regulation, a lower payment to income ratio can be applied to loans that have a shorter interest period.
As the retail credit market expanded, demand among our member banks also grew for ***the simplification of the regulations on consumer loans and further reduction of the administrative burden*** and ***for a major shift towards digitalisation***. The Hungarian Banking Association established a large ad hoc working group to elaborate proposals in the field.
The amendment of the ***NGM Decree on the information rules for mortgage loans*** regulating the information on the reference indicator used in the contract achieved a fuller implementation of the respective amendment of the directive.
Initiative of member banks for a single sectoral consumer-friendly practice relating to the deadline of the issue of cancellation permits, i.e., ***shortening the deadline for the issue of the approval for deletion***, is aimed at making retail lending smoother.

The ***simplified Private Bankruptcy Act*** may be a solution for mortgage debtors in trouble, as the purpose of the Act is to introduce a new simplified out-of-court debt settlement procedure for retail mortgage debtors with significant payment arrears, whose home is at risk. The Ministry of Justice also plans to amend the ***Act on the debt settlement of natural persons*** (***Private Bankruptcy Act),*** which was adopted in 2015 and has not been amended since then simultaneously with the adoption of the Simplified Private Bankruptcy Act. The experts of the Banking Association take an active part in consultation of the legal regulations.

The ***entry into force of the General Data Protection Regulation (GDPR)*** of the European Union on 25 May 2018 is significantly transforming banking processes. The ***Act on Electronic Administration*** also has a great impact on internal administration and contact with various authorities and other organisations. In relation to e-administration, the sector conducted extensive and detailed consultations with representatives of the Hungarian State Treasury, the Hungarian Chamber of Civil Law Notaries, the National Office for the Judiciary, the Hungary Faculty of Court Bailiffs, the National Tax and Customs Administration and NISZ Zrt.

In the second quarter, ***MNB*** held consultations *on the draft decree on the detailed rules pertaining to the form and method of complaint handling in financial institutions* and *on the amendment of the MNB Decree on online identification and screening systems*. The *MNB recommendation on the requirements for product approval applicable in the capital market*, prepared on the basis of the guidelines of the European Securities and Markets Authority on the same subject entered into force in the middle of July.
Concerning ***data reporting,*** a new ***change in the schedule of the HITREG project*** (aimed at developing an analytical credit register for the central bank) provides for sufficient time for preparations. According to this change credit institutions should first submit data for June 2019 (instead of January 2019) and by 30 September 2019. The MNB warned data suppliers to also take into account test periods while planning their development time.
On the basis of the needs assessment on the timing of the implementation of the ***XBRL reporting format,*** the majority of the respondent banks would be able to satisfy the requirements of the European Banking Authority from 1 January 2020.

In ***payments*** the changes in international regulations and the development of the Hungarian payment infrastructure called for the establishment of ***expert sub-working groups*** to resolve the tasks. Thus, a sub-working group was established ***focusing on the regulations relating to the Payment Accounts Directive (PAD) and the modifications of the 924/2009 Regulation on the fees of cross-border payments.*** The ***SCA RTS sub-working group dedicated to strong customer authentication*** was also established in response to the EU regulatory requirements for the new payment services directive (PSD2). In relation to the Hungarian infrastructure development and in response to the unanimous need of the members the ***IPS/AZUR sub-working groups*** was established earlier. Then the Association launched a ***request for payment sub-working group.***
Following the processing of the EU regulations related to the ***Payment Accounts Directive,*** the sub-working group reviewed the draft *government decree on the issues of information on the fees of payment accounts kept for consumers* prepared by the Ministry of Finance *and also elaborated a* ***sample fee information document*** preparing for the data supply into the comparative national website.
In relation to the ***instant payment system project,*** the MNB helps orientation on two interfaces that provide information on its website. The MNB's technical opinion is published on one interface in the form of frequently asked questions about instant payments, while the other interface contains the interpretation and application issues related to PSD2 concerning the service. On 7 June the MNB organised a press conference to inform the public on the current status of the project. A decision is expected to be made in the autumn on the implementation of the ***payment brand*** for the instant payment service. The ***'Request for payment' (RP)*** as a future function is part of the IPS/AZUR project. The implementation of this mode of credit transfer, which is a certain equivalent of collection in the instant payment system, is not a mandatory but a recommended service.
In relation to the P61 mandatory data reporting relating to the **GIRO Bank switch service** MNB expressed an expectation to terminate the 'other, specifically' option and specify the possible reasons of rejection exactly. The HBA elaborated proposals for the solutions, based on which the Supervisory Authority also proposed changes.

According to the most recent MNB data the increase in electronic payments continued in Q1 2018; the ***bank card purchases*** increased by more than 24 percent***,*** both in the number of transactions and values and 75% (in value almost two thirds) of the purchases were made with contactless technology. At the same time, the ratio of fraud incidents with cards issued in Hungary fell. The NGM/PM ***terminalisation programme*** also promotes the enhancement and modernisation of the card acquiring network. The number of online acquiring places is higher than 9,700.
In order to implement the judgment of the European Court of Justice related to the **SZÉP Card**, the Ministry of Finance amended the regulations on Széchenyi Recreation Cards ***by changing the issue of the cards into a payment service.*** In relation to the ***replacement*** of the currently used ***SZÉP cards*** (more than 1.5 million cards), it was a question of whether the provisions of RTS on strong customer authentication (SCA) also apply to SZÉP cards or whether the exception rule in RTS can be applied. In the end, the Ministry of Finance developed a position statement that allows for the continued use of the SZÉP cards already in circulation.
The new trading processes have been assessed and mapped ***for interbank cash trade development***. The working paper is suitable for handing over to IT developer companies for requesting proposals.

A ***visit to the Hungarian Banking Association of the President of the European Payments Council (EPC)*** was an outstandingly important event in the second quarter. In addition to the members of the SEPA working committee, members of the payment services and cash working groups were invited to the meeting, along with the representatives of MNB and MÁK. In his presentation, the EPC President focused on the organisational reform of EPC and the content reforms in its activities.
The election of new officials at the SWIFT General Meeting also affected the Hungarian User and Member Group because the three-year term of *Soren Haugaard,* representing our country group, had expired. Based on the support of Hungarian and other members within the country group, the General Meeting elected the Danish expert as a member of the SWIFT Board for another three-year term ending in 2021.

The ***proposed amendments to tax legislation*** were published by the Ministry of Finance on 18 June 2018. Of the components of the taxation package the sector is greatly affected by the provision that for transfers made by private individuals from their payment accounts, ***the part of the credit transfer not exceeding HUF 20,000 shall not be a base for the financial transaction levy*** per transfer. The Banking Association made a proposal to make retail transactions free of the transaction levy, but the legislator did not accept it. However, our proposal for the recognition of depreciation of intangible assets according to the IFRS and its reflection in the corporate tax as well as for the avoidance of dual taxation of certain accrued revenues were integrated into the legal regulation, similarly to our proposal for the clarification of the obligations to issue a certificate and supply data in relation to the portability of NYESZ-R accounts. One technical modification of the taxation package is the termination of the '***special tax of credit institutions'***, however the ***'special tax of financial institutions' will remain***, therefore the payment obligations of institutions will not change.

The ***annual ordinary general meeting*** of the Hungarian Banking Association was held on 20 April 2018, where the reports and plans of the organisation on operation activities and budget were approved. The General Meeting elected *Tamás Bernáth*, Chairman-Chief Executive of MFB, as a new member of the Board. The heads of member institutions of the Hungarian Banking Association adopted a common position for the third time - **a communiqué of the Banking Association.**

The meeting of **regional banking associations**, which already enumerate eight members, was held in Zagreb early June; this was the thirteenth such meeting, which offered an opportunity to participants to discuss international regulatory and market trends and national developments worthy of international attention.

The ***European quiz game,*** the final of which in Brussels was attended by students of 30 countries, was a novelty of the ***Money Week***, introduced by the European Banking Federation with outstanding success in Hungary. The organisers publish questions and exercises in advanced forms (through mobile phone or computers) promoting the playful development of financial culture among students in topics such as financial education, digital security, use of money and related mathematical bases.

The ***global regulatory bodies*** - Financial Stability Board (FSB) and the Basle Committee on Banking Supervision (BCBS) - now clearly focus on the ***consistent, full and timely implementation of the decided reforms***. Recognition and adequate management of ***new vulnerabilities and risks*** is also crucial. In the recent past, ***FSB*** introduced important measures ***for the establishment of effective global resolution regimes*** and promoting the implementation of the rules on total loss absorbing capacity.
During the quarter, ***BCBS*** and the International Organisation of Securities Commission (IOSCO) jointly published two documents on the identification and capital requirement of ***simple, transparent and comparable short-term securitisation***. The Committee prepared a status report on effective aggregation of risk data and their reporting and made a technical modification in the calculation of the net stable financing ratio (NSFR). The ***large exposures regulation*** adopted by BCBS in April 2014 will have to be applied from 1 January 2019.
In the spirit of monitoring new risks, the Bank of International Settlements (BIS), i.e., the parent institution of BCBS, covered exhaustively the crypto currencies in an analysis and assessment included in its 2017 annual report.

In relation to the ***European regulation*** it was a major progress that on 25 May 2018 the European Council agreed on a joint position (general approach) concerning ***the risk reduction package (RRP) of the banking sector.*** The package is aimed at the European implementation of the rules adopted under the Basel III Accord until November 2016 and amends the European legislation on capital requirements and resolution. The European Parliament also approved the package in June and therefore the trialogue can begin on the extremely important prudential set of rules after the summer break.
In relation to the European transposition of the finalisation of the Basel III According in December 2017, the European Commission turned to the European Banking Authority requesting advice and asking for a complex analysis with an assessment of the impact of the various components of the reform on the banking sector and the entire economy. The EBA first begins to collect data; covering also smaller, less complex banks with special business models. In the course of evaluation, EBA will closely co-operate with the national authorities, the sector and the other legislators.
Despite former promises, no breakthrough occurred in the implementation of the ***Banking Union.*** At the EU summit of 29 June, the parties postponed the decision on the reform of the euro zone to December. They will then decide on the financial backstop of approximately EUR 60 billion, to be used for the resolution of bankrupt banks, yet no date has been set for the start of negotiations of the European deposit insurance system.
The building of the ***Capital Markets Union*** is also progressing very slowly. The Member States have reached a partial agreement (partial general approach) on the new draft bankruptcy regulation (the insolvency directive). The Council reached an agreement on two further initiatives: cross-border distribution of investment funds and the pan-European private pension products (PEPP). The Committee made a proposal on making easier the cross-border transactions of businesses and the use of online solutions

II. Macroeconomic outlook, operational environment of the banking sector

In Q2 2018 ***the global economy continued to grow at the same pace as in the previous quarter yet less evenly***, while the growth risks relating to the whole year increased. The IMF maintained its expectation that growth could reach 3.9% both this year and next year. The money market conditions are still rather favourable globally, although market yields picked up robustly in the United States and the currencies of a number of economies with weak fundamentals fell under pressure. The rising oil prices, the safeguard duty measures launched by the US and the responses by the largest partners pose more and more threats to growth.

The seasonally adjusted ***annual real growth rate of the US economy reached in Q2 4.1%,*** which is almost two percentage points higher than the figure measured in the previous quarter. Internal consumption continues to be the main driving force behind growth, which is not surprising because besides the relatively stable wages the number of jobs and employment continued to expand significantly. Business investments increased, while the dynamism of residential property construction declined. The net export and government sector expenses have gone up and the falling stocks also had a favourable impact on the GDP. In June the Fed increased the reference rate for the seventh time in the rate increase cycle by 25 basis points, pushing it to 2%. During the quarter the USD muscled up against the EUR by more than 6%, but it is not yet reflected in the net export data.

Primarily because the political risks creating tension in the EU (tensions caused by the hard Brexit and migration between and within Member States and the trade and Middle East Policy of the US) following the first quarter ***the favourable business mood observed in the European Union at the end of the previous year continued to deteriorate*** in the second quarter, but it did not yet entail any considerable fall in performance. In the second quarter ***growth fell in the Eurozone by 0.1% percentage point*** (and reached 0.3% compared to the 2.1% reported in the previous year), although ***it did not change in the whole Union*** (0.4%, 2.2%). The improving labour market and net exports turned out to be the main driving force of growth. The net export was assisted by the weakening of the EUR against the USD during the quarter and the developing US protectionist trade measures did not yet impose any obvious restriction yet. Compared to the low rate of inflation in the Eurozone in the former period, the rate of inflation picked up considerably and reached the 2% target set by the European Central Bank (ECB) by June primarily due to the increase in oil prices. However, core inflation represents slightly more than 50% of that, which does not indicates any considerable inflation pressure.

Following the weaker growth figures in Q1, ***in Japan growth exceeded the expectations*** in the second quarter with 0.5% quarterly increase and 1.9% year on year increase. The improving figures were driven by the favourable changes in internal demand and an increase in capital investments. The weak foreign trade balance resulting from falling exports reduced the output.

The growth rate of the Chinese economy is moderately declining and stood at 6.7% on a year on year basis in Q2, which is 0.1 percentage point lower than in the previous quarter. Internal consumption and capital investments continued to fall during the year and net exports also slow down the growth, yet the impact of the trade war launched by the US could not yet be felt strongly in the period.

As a result of the rising energy carrier prices and the new trade capacities built towards China, the ***Russian net exports picked up significantly.*** The trend is likely to be reflected in the growth figures too but it will only add to the monoculture of the economy built on energy carriers. It is a further risk to growth that similarly to other parts of Europe, natural reproduction is low and productivity has not increased for five years.

Despite some stagnation in the global economy and the European upturn, ***the external market environment of the Hungarian economy may still be considered favourable.*** It is reflected in the

growth figures of the second quarter: according to the first KSH[1] estimate the GDP growth after seasonal and working day adjustments was 4.4% compared to the same period of the previous year. That reflects a small decline from the previous quarter's figure (4.7%), but Hungary still finished in a top position within the European Union.
On the production side almost all major sectors contributed to the growth, led by the market-based services.
On the consumption side the former trends continued as expected. Growth was clearly still pushed by dynamic consumption and investments. Within the net export the falling trade surplus decelerated the growth, but it was partially offset by the improved foreign trade balance of services.
In the labour market employment and unemployment moved again from the level maintained since last autumn in the second quarter by improving 0.6 and 0.3 percentage points respectively and reaching 69.3 and 3.6%. With the exception of agriculture and services, the number of employees rose in each market sector, while the share of public employees continued to fall. The dynamism of ***wage increase*** slowed down a little until May, but still ***amounted to almost 11 percent*** over a year.
During the quarter, the annual ***prices*** began to rise more dynamically compared to the previous quarter and, for the first time after more than five years, ***prices exceeded the 3% inflation target set by the MNB*** by 0.1 percentage point by the end of June. On annual basis the 15% fuel price increase had the greatest impact, which was caused mainly by the base effect resulting from the falling trend last year and rising trend this year. At the end of the period core inflations stood at 2.4%, which was lower than the MNB target. It is clear that the dynamic increase in wages still did not have any relevant impact on inflation.
The ***budget deficit***, on a cash basis, calculated until the end of June, turned out to be high, just as last year and exceeded HUF 1,420 billion, which corresponds to 104% of the annual appropriation. It was caused primarily by the pre-financing of projects to be implemented from EU funds from the budget, in the amount of almost a thousand billion HUF by the end of June (the EU transferred HUF 162 billion from the HUF 1,118 billion financing). However, according to the Ministry in charge, the 2.4% target budget deficit calculated with the EU methodology (adjusted with EU pre-financing) can still be achieved by the end of the year.
Despite an increase in internal demand and owing to the continuously high foreign trade sufficit, the ***current account balance*** and ***the external financing capacity*** may also show a durable sufficit, contributing to a steep decline in external debt and external vulnerability.
The National Bank of Hungary (Magyar Nemzeti Bank) continued its previous ***monetary policy*** and kept the reference interest rate at the same level. According to the position of the Monetary Council, the loose Hungarian monetary policy may be maintained for 5-8 quarters even under changing international monetary conditions.
The ***EUR-HUF rate*** rose during the quarter and fluctuated in a wider than generally observed band of 310-328 HUF.

In 2018 Q2 the ***aggregated balance sheet total of credit institutions went up by 3.6%*** (HUF 1,341 billion) according to the pro forma supervisory statistics. The HUF portfolios did not expand at the same rate (only by 3.4%). The exchange rates of the EUR and other major currencies strengthened significantly more than the expansion of the respective portfolios in HUF, while the nominal portfolios calculated in foreign currency decreased.
On the liability side, each major type of funds grew, apart from the issued securities. The total gross ***deposit portfolio*** expanded by HUF 993 billion (4%). Within that, inter-bank deposits increased above the average and other deposits expanded below an average rate (by 11.4 and 2.7%, respectively). Both the domestic and foreign deposit portfolios expanded; the latter ones grew significantly (by 9.1%). Contrary to the trends of the last period, the shortening of the average term of deposit portfolios stopped in the second quarter. In the case of inter-bank deposits the trend turned around, while for other deposits the growth occurred in the former maturity structure.

[1] Central Statistical Office

The deposit portfolio of households and corporate entities increased (the first by 4.1% and HUF 370 billion, and the latter by 5.9% and HUF 472 billion), while it shrank in the case of the state budget and non-monetary financial sectors (by 4.7% and HUF 62 billion and by 8.3% and HUF 220 billion).
All-in-all, the inter-bank resources which also include inter-bank loans grew by 8.1% (HUF 652 billion), with a balanced increase in terms.
Continuing the trend of the previous quarter, the portfolio of issued securities continued to decline in the quarter (by 2.3% and HUF 50 billion).
Despite the positive profit results of the quarter, ***equity continued to decrease slightly*** (by 0.1%, HUF 5 billion), which may be related partly to dividend payments and partly to accrued dividends.
Within the ***asset portfolio,*** the portfolio of each major asset type increased with the exception of inter-bank deposits. In the latter case, growth was also observed together with the inter-bank loan portfolio. The loan portfolio increased above average both with and without the inter-bank items, while all the other asset types showed only less than one percent growth.
In the second quarter the gross ***loan portfolio*** expanded by 5.1% (HUF 973 billion) or by 4.8% (HUF 796 billion) without the inter-bank loans. The depreciation and valuation difference dropped by 4%, while the accumulated interest did not have any relevant impact on the portfolio, so the net loan portfolio in total grew by 5.5% (HUF 1.009 billion). The positive impact of the weaker HUF on the portfolio increase must be underlined. While the HUF portfolios produced considerable, yet lower than average increase (4.1%), the foreign currency portfolios nominally expanded above average (6.1% in EUR and 9.2% in other currencies), but the actual nominal increase was around 1-2% with the adjustment reflecting the exchange rate fluctuation. The 5.6% increase in domestic operation contributed the most to the increase in lending, while the increase in the gross value of foreign loans was significantly lower (2.1%).
The gross loan portfolio of the non-financial corporate sector made a higher than average increase (by 5.2% and HUF 403 billion) and it was further increased by the reversed impairment. The retail loan portfolio grew much less dynamically, (by 2.4% and HUF 139 billion), but reversed impairment was significantly greater there. The borrowing of the budget sector needs to be mentioned, where the increase was more than 10%.
As a result of the above effects, ***the total net loan-to-deposit ratio of the credit institution sector fell to 81%,*** but without the inter-bank loans it increased by almost two percentage points (78%).
The ***profit*** before tax was down by almost 20% compared to the same period of the previous year and was slightly higher than HUF 320 billion (HUF 397 billion was reported in 2017 Q2). On an annualised basis, it reflects a 15.6% return on equity and 1.7% return on assets. (Without dividend, provisions and impairment the profit was HUF 180 billion, with this calculation the return on equity and assets was only 8.7 and 1% respectively.) The net interest income dropped again both compared to the same period of the previous year and to the previous quarter, but the net fee and commission revenues picked up and the income from other financial and investment activities also improved. The administrative expenses increased drastically, by more than 5% both on a quarterly and annually basis, but within those the staff costs show a growing annual tendency and a falling quarterly tendency.

III. Corporate sector

Current structure of the credit market

According to the ***MNB study prepared in June,*** the MNB Funding for Growth Scheme was a major factor in putting a stop to the shrinking of the loan portfolio. The long-term SME loans with fixed interest rates must be used more widely in order to facilitate adequate operation of the SME credit market. Within the framework of the programme, 40,000 Hungarian micro, small and medium-sized enterprises obtained favourable financing until the end of 2017 Q1, when the scheme ended with more than HUF 2,800 billion included in the signed contracts. According to the MNB estimates the FGS could contribute to the economic growth by 2–2.5 percentage points between 2013 and 2017 and thereby also had a major impact on employment. One of the most important attractions of the FGS loans, also available for a 10-year term was not only the favourable interest rate, but the fact that it was fixed. The same was also confirmed in the feedback received from credit institutions and businesses. Following the closing of the scheme more than a 1 year ago, there was no major decline in the volume of SME loans, but the distribution of the term of the loans shifted towards shorter terms: the share of loans with more than 5 years dropped to approximately 30%, which was lower than observed during the period of the FGS. Beside the fall in the share of long-term loans, the ratio of fixed-interest rate SME loans also decreased after the second phase and total phase out of the scheme, especially in the case of longer terms. Of the new SME loans provided for a term of more than 5 years over the past four quarters only 20-30 percentage had fixed interest rates, which was still lower than the close to two-third ratio, generally observed during the phasing out period of the FGS scheme. The availability of financing options with a stable and predictable interest rate are required by the business risk to implement their capital investments and to facilitate dynamic economic growth. The FGS made it possible for the SMEs, but when the scheme was phased out, these options reduced in the credit market.

IV. Retail sector

MNB proposal for the introduction of IAPR

The MNB did not consider the achievements of its Certified Consumer-Friendly Housing Loan scheme sufficient for the dissemination of the long-term retail loans that have ***a fixed rate during the term and during the long interest changing period***. To achieve its goals, the MNB approached the banking sector with two further initiatives in April: ***a restriction in the PTI indicator for variable and short interest period loans*** and ***the introduction of a new adjusted APR***.

With the ***annual percentage rate adjusted with interest expectations (IAPR)*** the APR is calculated on the basis of the cash flows that are estimated from the estimated yield curve of inter-bank rates at a particular time and not on the basis of the initial nominal interest rates. The draft MNB recommendation expects the IAPR to be calculated and indicated next to the APR, under the same conditions.

The MNB presented the metrology with which it proposed estimating the yield curves in June. The presented method contains a progressive financial-mathematical model. According to the position of the banking sector a ***single and exact calculation and disclosure methodology*** is required, with which, just like in the case of APR, the ***IAPR figures*** provided by the various banks ***can be compared*** and precludes situations when, under the same terms and conditions of borrowing the published IAPR figures are different only because of the estimated futures interest rates. According to our proposal the sector needs a model that can be applied simply and that gives clear results that cannot be manipulated and where the calculated yield curve ensures the exact match of the market interest rates. According to the objectives of the APR, under the conditions indicated above simple applicability and no manipulation are important. According to the MNB their proposed model can simultaneously satisfy two requirements from the above.
At the moment the MNB is assessing the appropriate methodology the calculation and disclosure of IAPR.

Fine Tuning of the PTI regulations

In addition to the introduction of IAPR, the MNB package of measures developed to reduce the interest rate risk of debtors proposed some ***differentiation in the debt limit regulations (PTI) according to the interest period***. According to the amended decree a lower payment to income ratio can be applied to loans that have a shorter interest period.
In terms of risks the Banking Association agrees with the intention of the modifications but prudent lending to retail customers is a desirable objective of the national economy. However, given the economic environment of the recent past, the real wages and therefore the requested loan amounts were also amended by the member institutions of the Banking Association and therefore we consider that the limits of the loans falling within the scope of the decree should also be adjusted accordingly. The proposed solution, i.e., differentiation of the PTI limit according to interest period is too complex and too cumbersome to apply so institutions must have enough time to prepare for the modification.

HBA proposal for simplifying the regulations on consumer loans

In the past few years, retail loans grew dynamically in the Hungarian economy. As the credit market expanded, demand also grew for ***the further reduction of the administrative burden*** and ***for a major shift towards digitalisation***. The Hungarian Banking Association established a large ad hoc working group to elaborate an initiative, but other working groups of the Banking Association also discussed the concepts and ideas. In the second quarter the proposal was discussed by the Legal, Property Valuation, Data Protection, CCIS, Company Gateway, Anti-Money Laundering and Workout working groups. The consultations were also attended by retail lending experts of the member institutions. The jointly developed complex package affects a number of levels of legislation, and contains remarks expressed at conceptional and technical levels. The Banking Association is expected to send the concept to the Ministry of Finance and the Ministry of Justice at the end of the summer.

Modification of the information rules on mortgage loans

Regulation 2016/1011 (EU) on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds amended by *Directives 2008/48 EC and 2014/17 EC,* pursuant to which banks must provide information on the reference the indices included in the contract prior to entering into any contract. According to the Regulation the equivalent provisions must be implemented in the national legislation by 1 July 2018, based on which the *Decree of the Minister of National Economy 3/2016 (7 January) on the information rules pertaining to mortgage loans* was amended.

Initiative of member banks for a single sectoral consumer-friendly practice relating to the deadline of the issue of cancellation permits

Act CL of 2016 on General Public Administration Procedures introduced the term ***summary proceeding*** from 1 January 2018, according to which the competent land registry offices fulfil requests for the registration of ownership titles and requests for the registration of mortgages in accelerated proceedings, within 8 days, providing that all documents constituting the basis of the registration are available. However, when the sold property is encumbered by a mortgage securing a debt, which is settled together with the disbursed loan and that mortgage is also secured by a restraint on alienation and encumbrances and the consent of the beneficiary of the restraint on

alienation and encumbrances is not available, the proceeding land registry office will reject the request for the registration of the mortgage. This may cause a problem for the bank providing the new loan, and therefore one of our members proposed shortening the process of issuing cancellation consents.
In relation to the issue of cancellation consents for restraints of alienation and encumbrances, the Banking Association can support the shortening of the deadline, similarly to the process used for the registration of mortgages, in order to establish an effective and single practice. The objective is to issue cancellation consents within 8 days from the date when the total debt is credited on the loan account instead of the currently effective 15-30-day deadline. The experiences are discussed and opinions are exchanged with the member institutions, after which ***a consistent sectoral practice could be established for the deadline of the issue of cancellation consents, which will be beneficiary for consumers***.

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

Consultations relating to the simplified Private Bankruptcy Act; modification of the act on debt settlement procedure ('ordinary private bankruptcy')

Consultations began between the Ministry of Justice and the Banking Association in relation to the *Act on simplified debt settlement of natural persons mortgage debtors in major payment arrears,* known as the ***Simplified Private Bankruptcy Act***. The Private Bankruptcy working group discussed the draft bill. The purpose of the Act is to introduce a new simplified ***out-of-court debt settlement procedure*** for retail mortgage debtors with significant payment arrears, whose home is at risk. The simplified act entered into force in 2015, the purpose of the simplified act is to simplify the process governed by *Act CV of 2015 on the Debt Settlement of Natural Persons* (known as Private Bankruptcy Act) for a group of debtors.
The social policy objective of the simplified out of court debt settlement is to make sure that if a certain amount of debt is settled, debtors satisfying the statutory conditions shall be entitled to the cancellation of part of their debt, rescheduled repayment of the outstanding debt and significant reduction in repayments by the power of the law.
The Banking Association welcomes each step that is aimed at the simplification of the debt settlement procedure and that making it more transparent and effective, and therefore, it also agrees with the most important objective of the Act.
The Ministry of Justice also plans to amend the *Act on the debt settlement of natural persons*, which was adopted in 2015 and has not been amended since then simultaneously with the adoption of the Simplified Private Bankruptcy Act.

The Banking Association collects the opinions and proposals relating to the draft bill from the experts of the Private Bankruptcy working group based on the experience to date and then will conduct negotiations with the ministry accordingly ensuring that following the amendment of the act the debt settlement procedures can function more simply and effectively.

NGM[2] position statement on certain provisions of Act LIII of 2017 (AML Act)

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 decision of the working group, the questions were also sent to

[2] Ministry for National Economy

the competent department of the Ministry for National Economy[3]. Most questions were replied to in a positive manner by the Ministry after consultation.

In its response to the questions concerning the obligation to keep information on business relations up-to-date, i.e., concerning ***'dormant' accounts,*** the NGM stressed that ***the legal consequences (non-execution of the order) must be applied after two years, i.e., after 2*365 days in the case of all account types.*** Customers cannot provide data on the phone, ***only in person or through a previously audited electronic communication tool***; and in the case of customers for whom the service provider keeps a number of accounts, the legal consequences does not have to be applied if the customer has at least one account, in relation to which they submitted an order to credit or debit the account over the past two years. The NGM also confirmed that the legal consequences had to be applied only ***after 26 June 2019***.

Proposed modification of the compliance best practice code

The HBA Board published the ***Compliance Best Practice Code adopted in the autumn of 2017 as a Banking Association recommendation.*** Without prejudice to the mandatory provisions of the effective legal regulations on compliance and the consents of the recommendations issued by the Supervisory Authority the Code intended to disseminate a recommended compliance practice for wide application in the financial sector. The Board supported the idea that, depending on declarations of intent, received from the individual institutions, the compliance working group should consider within one year ***whether or not the Code should be published as a recommendation to witch the institutions could declare their adherence.***

In relation to the recommendation, one of the member institutions pointed out in spring that a number of provisions included in the Code would impose a disproportionate burden on smaller member institutions even with the intention of full compliance and requested the amendment of the provisions of the Code in case the HBA decided to publish the recommendation as a document requiring the declaration of adherence.

Considering that ***the Code intended to define a direction to be followed in the future,*** in fact the recommendation contains a number of proposals and solutions which are not yet applied by all members and which the smaller institutions would find more difficult to comply with even in the future, and that was the primary reason why the HBA published Code originally as a simple recommendation.

At the Small and Medium-Bank Forum called to discuss the topic, the member institutions discussed the proposal in detail and agreed that they ***would send their proposed amendments with which they can support the renewed publication of the recommendation in order to facilitate its review.*** The received amended proposals will be taken into account by the compliance working group during the review scheduled for the autumn.

Developments relating to e-administration

According to a position statement issued by the Ministry of Interior, pursuant to *Act CCXXII of 2015 on the General Rules of Electronic Administration and Fiduciary Services* ***local governments are obliged to facilitate electronic administration for all services*** falling within their responsibilities and tasks and ***services*** provided on the basis of the law. The SME and Legal working group held consultations with the representatives of the Hungarian State Treasury on the Application Service Provider (ASP) system, with special regard to electronic administration, to which 93% of the Hungarian local governments already signed up.

[3] When the new government was formed after the elections, the Ministry for National Economy ceased to exist and its financial regulatory tasks were transferred to the Ministry of Finance (PM). This report contains both titles, depending on which ministry took the particular regulatory step.

The SME and the Legal Working Groups held consultations with the representatives of the Hungarian Chamber of Civil Law Notaries (MOKK) in relation to the ***Hungarian financial institutions contacted by civil law notaries in inheritance procedures*** and in relation to the IT framework for the response. As a result of the consultations, MOKK sent the contents and format of the ***request and response template***, which were reviewed by the working groups.

The SME and Legal working group had a meeting with the representatives of the National Office for the Judiciary (OBH) on ***electronic contact with the courts.*** In relation to the questions asked by the Banking Association, in general they explained that document management failed whenever the Litigation Gateways were involved, because the Litigation Gateway was terminated on 31 January 2018 and was replaced by the Company Gateway. The legal counsels of banks and individual attorneys-at-law can also use the Client Gateway, available for private individuals instead of the Company Gateway, bit the switched/mixed use of the Client Gateway and Company Gateway is not advisable. ***The Company Gateway contact information registered in the Administrative Database can already be queried*** in courts. At the same time, in default, documents can also be delivered to the Company Gateway even without notification.

The working groups held consultations with the representatives of the Ministry of Interior, OBH and the Hungarian Faculty of Court Bailiffs on the electronic contact to be maintained with ***independent court bailiffs***. Following the discussion of a number of observations of the Banking Association, the representatives of the Ministry of Interior agreed to contact the Ministry of Justice in relation to the use of the ***Electronic Delivery System of Enforcement Documents (***VIEKR) and to send the received answer to HBA.

The SME and Taxation Working Group consulted with the representatives of NAV, as a result of which NAV issued a written position statement indicating that ***electronic contact with the personal direct loan and financial institution administrator would be provided in three groups of matters (taxation, crime and enforcement)*** during the transition period until the Company Gateway begins its operation.

Upon the request of the Taxation Working Group, we organised a consultation with NISZ and NAV experts ***on the identification of electronic mail by the type of case*** in the second half of June 2018. At the consultation the authorities presented their concept for the future operation.

Preparatory Work of the Sectoral Skill Councils

Simultaneously with the amendment of the *Vocational Qualifications Act* which took effect on 1 July this year, the practice of a number of advanced EU Member States was also adopted in Hungary and ***skill councils*** were formed in approximately 15-20 sectors (the final figure will be defined in the implementation decree), with the involvement of experts of companies representing the actors of the economy. The activities of the skill councils are coordinated by the Hungarian Chamber of Commerce and Industry (MKIK). The composition of the ***Economic and Administrative Skill Council,*** established last December ***and also representing the financial sector*** was defined based on an MKIK proposal. Despite the fact that prior to the entry into force of this act the Council did not have any legitimate authorisation, or that following the Parliamentary elections the Minster in Charge of the Ministry of Innovation and Technology (ITM) did not invite the members of the council the council began its preparatory work with monthly meetings. The future members made recommendations for the draft implementation decree regulating the operation of the sectoral skill councils. The council adopted its rules of procedure which govern numerous areas classified in the same sector (accounting, tax, customs, finance, administration, etc.) establishing a long-term balance among those areas (as requested by us) and, if those rules of procedure enter into force, they will ensure the continuous representation of the banking sector. They set an objective of preparing an occupational psychology analysis of the most important occupations and careers that can be pursued in possession of OKJ (National List of Qualifications) qualifications at present. The analysis will be financed by MKIK and its preparations are currently in progress.

VI. Further Developments relating to Magyar Nemzeti Bank

Recommendation for the requirements of product approval applicable in the capital market

The MNB sent for consultation ***its draft recommendation on the requirements for product approval applicable in the capital market***, prepared on the basis of the guidelines of the European Securities and Markets Authority (ESMA) on the same topic. In line with the practice of MNB conducted in the field, the draft is practically identical with the underlying ESMA guideline, and therefore during the review most of our proposals focused on the clarification of the text.
The MNB announced the recommendation at the beginning of July and ***it entered into force in the middle of July.***

Draft decree of the Governor of the MNB on the detailed rules of the form and mode of complaint handling in financial institutions

The member institutions made a number of clarifications and minor supplementary remarks on the text of the decree. It should be emphasised from the major comments that the ***concept of conduct 'prior' to contract is too wide***, and practically anybody can complain against the institutions on that basis for any reason. The member institutions also indicated that the draft does not provide any indication as to whether a complaint should be rejected or a decision must be made on the basis of available incomplete information, if the customer fails to make available the information held by them for the assessment of the complaint.
The publication of the decree is expected in the autumn.

Developments relating to the modification of the MNB Decree on online identification and filtering systems

On the basis of a few months' of experience of the practical application of the *MNB Decree on the implementation of the Act on the prevention and combating of money laundering and terrorist financing relating to service providers supervised by the MNB and the minimum requirements of the development and operation of the filtering system specified in the Act on the implementation of the restrictive measures imposed by the European Union and the UN Security Council related to liquid assets and other financial interests,* the HBA AML working group prepared the **corrections proposed by the sector.**
As our members made remarks on a number of topics that are crucial for the sector, we requested a public consultation in order to come up with modifications that take the requirements of both the sector and the Supervisory Authority into account to the highest possible extent. The MNB decided to modify the decree following the initiative. In the official review procedure the working group sent its supplemented remarks, ***and supported the Good ID application-based customer identification process*** with a remark that the amendment should not restrict the repository of methods and tools in anyway, ad, on the contrary, ***it should extend the customer identification options*** using solutions

already available on the market or taking a pioneer role in various technical solutions expected to appear.
The consultation is scheduled on 30 August.

Reporting

- *Development relating to HITREG*

The HITREG working group, established for the development of the analytical credit register of the central bank, had two meetings in 2018 Q2.
In relation to the work schedule a decision was made that credit institutions should submit data first for June 2019 instead of January 2019 by 30 September 2019. For financial enterprises that deadline is extended by a further year. The MNB requested the data suppliers to ***also take into account test periods when they plan their development time.***
During the consultations it was confirmed that ***the complete data set will have to be reported in the individual reports rather than the changes occurring during the period in the future***. This involves sending larger volumes of data but it is better structured, more transparent and controllable. The data of the termination of an instrument or credit approval and the transaction tables, which must be completed for each reporting period, are exempted from the data supply.
The MNB will not build a central real estate and vehicle collateral registration database within HITREG which would have been part of project according to the original concept. It is also due to the principles presented during the consultations that no data will have to be supplied about credit card transactions, OVD draw-downs and repayments.
It is a new component under the HITREG data model that the information required *in relation to the European Systemic Risk Board (ESRB) recommendations* (ESRB/2016/14) to be introduced in 2020 *has also been integrated into the data model*.

The MNB proposes data supply from integrated data sources. In order to facilitate that, the CCIS system is developed parallel with the HITREG project in order to harmonise the code sets of the tables that are included in the two systems. In the long term it will assist the data suppliers but in the short term it requires additional development. The MNB sees that as a result of the project the data quality of CCIS will improve significantly, which will also strengthen responsible lending.
One of the objectives of the project is to replace the granulated data of HITREG and later also the aggregated data collections. It is conditional to adequate data quality and the expansion of HITREG with further customer sectors. The replacement/termination of the currently existing data supplies will be regulated in annual decrees.
The main problem of the reporting organisations is that not only the development capacities required for building HITREG are limited, the human resources available for continuous work are also extremely overloaded with work. The new reports and parallel data supplies only make the situation worse. Nevertheless, our members asked that the existing data supplies should not be modified if they can be replaced by HITREG even in part. The objective is to terminate the existing reports as widely as possible with the introduction of HITREG within the shortest possible time. In order to promote that, a delegation of the Board of the Hungarian Banking Association also held consultations with the competent Vice Governor of the MNB.
Further discussions are required on the technical implementations of data supply.

- *Needs assessment relating to the introduction XBRL taxonomy*

Based on an MNB request, ***we conducted a needs assessment on the timing of the introduction of the XBRL reporting format*** for the ITS[4] reports of the European Banking Authority (EBA). The

[4] Implementing Technical Standard

majority of the respondents could comply with the new format if introduction took place after 1 January 2020. Other member organisations could definitely satisfy the requirement 6-12 months later than that.
A number of institutions explained the need for postponement by claiming that PSD2, the introduction of the instant payment system, GDPR compliance and the additional tasks triggered by the switch to IFRS require a lot of capacities in development, accounting and reporting.
It was also proposed that the switch should not be scheduled for the beginning of the year because the units affected by the introduction of XPRL already have an enormous workload relating to the closing of the year and reporting work.
On the basis of the needs of its member banks, Banking Association requesting the taxonomy switch to be ***timed after 1 January 2020***.
In its response, the MNB recognised the request and indicated that by the end of 2019 the reporting obligations can be performed in the usual, traditional format (excel, txt) and that the MNB would temporarily undertake conversion to the required format and validation according to the taxonomy when the supply of all data begins to EBA, likely in 2019, as a result of the EUCLID project. In 2019 the MNB will support downloading, uploading and acceptance of ITS reports in the traditional form.

- *MNB opinion on the valuation of subsidised loans in IFRS9*

At the end of May 2018 the MNB published its position on the valuation of subsidised loans according to IFRS9 in the form of ***frequently asked questions and answers*** (Q&A). Although, the MNB has no competence in providing any legal interpretation for IFRS, in order to promote a consistent application of the law, they considered that the publication of the practice deemed good by the central bank would be practical.
Under the IFRS9 standard the loans affected by state interest subsidy and fair banking regulations should be reported at amortised cost or at fair value (due to the multiplication factor included in the definition of the interest. The MNB ***considers records kept at amortised cost appropriate.*** It is well-known that some large audit firms also working on IFRS accept fair valuation, further consultations are expected to take place on the issue in the autumn.

VII. Payments

Payments Working Group: election of the chairman and establishment of new sub-working groups

The Payments Working Group was popular and active among the HBA members and performed balanced activities mainly owing to its agile leader, *Dr Éva Kotulyák* (MKB), who led the working group for nine years. After that long period, the Board of the Banking Association granted her the Golden Beehive award to recognise her contribution when she retired. The working group elected D*r Katalin Pellényi Mrs Börzsei* (Raiffeisen Bank) to chair the Payments Working Group for the next three years as soon as her appointment is also approved by the HBA Board.

In the recent past, a number of challenges occurred in payments that required responses. They included changes in the international regulations and compliance with the new requirements, the development of the Hungarian payment infrastructure also called for the establishment of expert sub-working groups with the effective use of the resources of the working group in order to resolve the challenges and tasks. Thus, a sub-working group was established ***focusing on the regulations relating to the Payment Accounts Directive (PAD) and the modifications of the 924/2009***

Regulation[5]. The ***SCA RTS***[6] ***sub-working group*** was also established in relation to the EU regulatory requirements related to the new Payment Services Directive (PSD2). According to the plans the sub-working group had its first meeting in Q2***.*** In relation to the Hungarian infrastructure development and in response to the unanimous need of the members the ***IPS/AZUR sub-working group*** was established earlier. The sub-working group completed its assignment towards the end of the period and then the association launched a ***request for payment sub-working group***, which will begin regular activities from Q3.

Payment Accounts Directive (PAD) Review of the respective government decree, fee information document templates

The sub-working group formed from the experts of the Payments and Bank Account Working Groups continued their work on processing the EU regulations relating to the ***Payment Accounts Directive***[7]. Following the ***interpretation of the regulations and the identification of the tasks*** stemming from that, we contacted the respective regulatory authorities, the NGM and MNB in order to clarify the issues. Our Association held discussions on the entry into force of the regulations, the comprehensive cost indicator, the initial date of making the fee information document and the statement of fees available to customers, the national list of the most frequent services, the differences in the use of the terms under the EU Regulations and the effective Payment Services Act, as well as the operator of the mandatory national comparative website and the data to be supplied to it.
Following the consultations the Ministry of Finance prepared a draft government decree *on certain issues of information on the fees related to payment accounts kept for consumers.* The decree reflects the results of the prior consultations a great deal, even if not in every aspect, i.e., the banking considerations based on which adequate conditions can be provided for the implementation of the regulations were mostly integrated into the draft. An important component of the draft government decree is the annex that contains the list finalised and published by the MNB on 24 April 2018 under the title of *'Hungary's final national list in relation to the comparability of the fees related to payment accounts',* which contains ***not only the mandatory eight pan-European services but also the 12 special Hungarian services***. The draft government decree states that the comparative national website is operated by the MNB. Our member banks must contribute to it with data supply, for which the sub-working group filled in a ***fee information document template*** and submitted it to the MNB as an initial step.

Activities of the instant payment system (IPS) sub-working group

On the basis of requests from various member banks and their specific needs, at the beginning of the year the HBA established a ***complementary sub-working group with the name of IPS/AZUR***[8]. The sub-working group collects, expresses, interprets, classifies and discusses issues relating to the

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[5] Regulation of the European Parliament and of the Council on the amendment of 924/2009/EC Regulation on the fees of cross-border payments in the Community and of currency conversion

[6] RTS on *Strong Customer Authentication (SCA) and Common and secure communication (CSC)*

[7] Commission Delegated Regulation supplementing Directive 2014/92/EU of the European Parliament and of the Council with regard to regulatory technical standards for the Union standardised terminology for most representative services linked to a payment account (2018/32);
Commission Implementing Regulation laying down implementing technical standards with regard to the standardised presentation format of the statement of fees and its common symbol according to Directive 2014/92/EU (2018/33) ;
Commission Implementing Regulation laying down implementing technical standards with regard to the standardised presentation format of the fee information document and its common symbol according to Directive 2014/92/EU (2018/34)

[8] The latter is an acronym AZUR (Instant Transfer System) - title of the GIRO project

project controlled by GIRO but not managed (or not managed properly) within the national project organisation. The activity of the sub-working group is fundamentally outside the scope of the GIRO project and directly does not influence the deadlines or achievements of the project. The GIRO Project Manager, Gábor Bakati, also attends the meetings of the sub-working group and reports on the work performed in the GIRO project, the major milestones and their achievements.
The sub-working group collected questions on 16 topics, classified them and discussed almost 140 relevant issues at its meetings in the past 6 months. The questions that the sub-working group could not answer were sent to GIRO for interpretation first and, if necessary, they were also forwarded to the regulatory authority, i.e., the MNB.
Following the processing of the GIRO and MNB responses, the mission of the sub-working group will end. However, it does not mean that the IPS/AZUR project will be removed from the agenda of the Payments Working Group because a new sub-working group dedicated to the *Request for payment* has already been established.

The increase in the quantity of information available in relation to the project has significantly improved and assists the preparations of our members. The MNB established two information platforms on its website that can provide significant assistance to the activities of the sub-working group. On one, ***responses are given to the most frequent questions about instant payments,*** while on the other the MNB's technical opinion is published ***on interpretation and application issues related to PSD2 concerning the service.***
On 7 June the MNB organised a press conference to inform the public on the current status of the project.

The project management made a detailed plan on the implementation options of the ***payment brand*** attached to the instant payment service and submitted it to the experts and the stakeholders. The draft was reviewed by the members of the Banking Association. All feedback indicates that the majority of our members think it is practical to introduce ***a permanent, long-term payment brand for the basic instant payment service***. According to the proposal the brand would be owned and maintained by the MNB. A decision is likely to be made on the introduction of the brand in the autumn.

Establishment of a Request for payment sub-working group

The ***'Request for payment' (RP)*** as a future function and service is part of the IPS/AZUR project. The implementation of this ***mode of credit transfer***, which is certain equivalent of collection in the instant payment system, is ***not a mandatory but a recommended*** service. At the same time, it must be noted that even if it is optional, the MNB encourages the implementation of the service as widely as possible in all events and consultations organised for the members of the system. A specific need was expressed at the meeting of the Payments Working Group that the members of the Banking Association should jointly develop the ***Hungarian standard for this payment method.*** 18 HBA member banks registered for the sub-working group focusing on the issue.
During its first meeting, the sub-working group defined its objectives as follows:

- development and processes from the start of an RP through the execution of the payment to its closing,
- collection of customer needs from potential users (e.g. retail and wholesale companies, utility service providers, insurance companies),
- definition of the contents of the input and output data in each process step,
- if and to the extent required, a proposal for developing a standard, which is directly required for the functioning of the RP,
- preparations of the specifications for the data content of the RP,

- to close the assignment, a decision as to whether a proposal should be prepared for the joint implementation.

The MNB expert and the chair of the GIRO request that the payment working group also attend the meetings of the sub-working group as permanent guests thus supporting the effective activities of the sub-working group, ensuring the availability of adequate information.

MÁK dawn cycle

Organised by the HBA, the Hungarian State Treasury (MÁK) held a consultation with the banks on 29 May 2018 presenting them to the ***future settlement procedure of direct credit transfers,*** which would start on 2 January 2019. The Hungarian State Treasury also gave the same presentation as an associate HBA member at the June meeting of the Payments Working Group.

In the future, MÁK intends to manage the direct credit transfers, including the large number of wages and contributions as well as pensions transfers, which are currently sent in the night settlement system (IG1) of the GIRO Inter-bank Clearing System (BKR), ***in the intra-day settlement system (IG2)***. Technically, the dawn cycle starts every day but GIRO clears direct credit transfers submitted by the customers with pre-defined value dates on days announced in advance. There will always be a dawn cycle on pension payment days, otherwise it will depend on the number of items whether the dawn cycle starts or not.
The Treasury will inform the GIRO (approximately one month in advance) of the days when a dawn cycle will be required in order to enable GIRO to notify the banks. The information on the number of items above which the dawn cycle must be run is important for the Treasury. During the dawn cycle banks cannot send any transaction. On the announced days they must prepare for receiving and crediting the items.
Irrespective of whether or not there are any items accepted for the dawn cycle, the dawn cycle will be run on each settlement day and the IG2 standard reports and an IG1 Bank Position report (empty or containing actual data) will be sent every day.
Clearing will take place in IG2, but the settlement will be made on the basis of the IG1 mechanism and not in VIBER, i.e., MNB will receive an IBI file from GIRO Zrt. and will book (credit) the items of the file on the accounts of the banks.

According to the plans, the live dawn cycles will start on 2 January 2019. Prior to that, the required tests will take place between GIRO Zrt. and MÁK from 30 June 2018, followed by the integrated tests from October until the go live date.

GIRO Switching accounts

During the inspections conducted at the payment service providers, Magyar Nemzeti Bank objected to the fact that the number of reasons for rejection is much higher in the documents relating to the ***GIRO Bank switching service*** than in *Government Decree 263/2016 (31 August) on switching payment accounts*. According to the MNB's position, of the currently existing 13 reasons, the termination of a payment account could be lawfully rejected on the basis of only 3 reasons.
In co-operation with the Hungarian Banking Association and GIRO Zrt., the payment service providers reviewed the currently used reasons for rejection and, in addition to the three reasons also recognised by Magyar Nemzeti Bank, recommended to keep, revise or clarify three further reasons. The MNB accepted one of the proposed and clarified reasons (the payment account affected by termination functions as a repayment account). One of the rejected reasons would entail a major system amendment for one of our members, and therefore they are still examining the possible solutions.

In relation to the ***P61 mandatory data supply*** relating to the GIRO Banks switch service, Magyar Nemzeti Bank objected to the fact that *'other specifically'* reason was indicated for rejecting the payment account switch in 2/3 of all cases in 2017. The MNB expressed an expectation ***to terminate the 'other, specifically' option*** and specify the possible reasons exactly. The Hungarian Banking Association elaborated proposals for the solutions, which were accepted and Magyar Nemzeti Bank also initiated changes on the basis of the proposed solutions.

Latest news on bank cards

According to the most recent MNB data published on 15 June 2018, the increase in electronic payments observed in the earlier periods, continued ***in Q1 2018***; ***the card payments increased by more than 24 percent,*** both in the number of transactions and values compared to the same period of the previous year. 75% of the card purchases were made with the contactless technology, which in total represented almost two-thirds of the total turnover. At the same time, the ratio of fraud incidents with cards issued in Hungary fell in 2017, which means that the card payments system is more secure. The number of payment cards issued in Hungary is higher than 9 million, of which 86 percent are debit cards. 75% of the cards support the contactless payment function. There are 136 thousand POS terminals, of which 85 percent are suitable for contactless payment. The ministry ***terminalisation programme*** in progress is another option for the enhancement and modernisation of the acquiring network. The number of online acquiring places is higher than 9,700.

The Bankcard Working Group regularly monitors the PSD2 preparations of the members, focusing on the ***implementation of strong customer authentication (SCA)*** in terms of bank cards, though attempts are made to adjust the statutory deadline of which of January 2019 to the European implementation deadline (14 September 2019) with the Hungarian legislator. As far as we are aware, the respective amendment of the law is in progress and is expected to take place in the autumn.

In addition to the current issues sent to MNB, the competent ministries and card companies, we supplied the technical information to our members on bank card issues at working group consultations and in various workshops. The working group covered the following main topics:

- application of compensation rules related to not approved payment transactions,
- introduction of new card services and legal limits,
- amendments in the regulations on SZÉP cards,
- planned changes in the EU regulation on cross-border services.

In terms of ***bank card related crimes***, since the beginning of the year, more ATM attacks were made in Hungary in which cash was successfully withdrawn in more than 20 percentage of the attempts, causing more than HUF 70 million damage. In addition, a number of banks reported recurring and mass problems relating to ***data phishing***. The investigations of the cases are supported by the fraud experts and the respective working group of HBA. The international overview is also assisted by the regular review of the documents of the European Association for Secure Transactions (EAST). In order to enhance the awareness of customers, we began preparing ***general security advice for bank cards and information on data protection***.
We continued our active cooperation in fraud with the experts of the National Investigation Bureau (NNI) in the ***e-commerce*** and ***Airport Action Days*** international actions organised by EUROPOL for the third time. Owing to the common efforts of the banking sector and the regulatory experts, the almost two week actions were closed with important results for Hungary:

- 2 arrested suspects, 3 launched investigations,
- detection of more than 140 illegal transactions and more than 100 obtained bank card data,

- amount involved in all illegal transactions affected: HUF 15,711,686 (approximately EUR 50,000)

SZÉP card

In order to implement the judgment of the European Court of Justice related to the SZÉP Card, the Ministry of Finance amended the regulations on Széchenyi Recreation Cards ***by changing the issue of the cards into a payment service.*** The respective government decree was published on 20 April 2018.
In order to implement the most ***cost-effective switch***, we conducted consultations with the Ministry of Finance and Magyar Nemzeti Bank on the following points in the practical implementation of the regulation:

- In relation to the ***replacement*** of the currently used ***SZÉP cards*** (more than 1.5 million SZÉP cards), it was a question of whether the provisions of RTS on secure customer authentication (SCA) also apply to SZÉP cards or whether the exception rule in RTS can be applied. In the end, the Ministry of Finance developed a position statement that allows for the continued use of the SZÉP cards already in circulation.
- The amendment of the respective provision of the government decree is expected in order to extend the deadline for the switch from 30 November 2018 to 5 January 2019.
- The transformation of the current system may entail a higher transaction levy on employers, and therefore we proposed making transfers made into SZÉP cards exempt from the transaction levy, which requires an amendment of the law.
- Pursuant to the new government decree, the account assigned to SZÉP cards will be a payment account for limited functions, and therefore administrative transfers could not be initiated on those accounts. In order to do so, the *Act on Court Enforcement* will also need to be amended.

The respective modifications of the law are initiated by the Ministry of Finance.

Cash trade development

In February, the Presidency approved the production of a Feasibility Study (FS) concerning the ***development of interbank cash trade*** to be implemented in the framework of the Hungarian Banking Association.
The map of the new trading processes was completed in the second quarter, which serves as the basis for outlining the ideas for development. The working paper is suitable for handing over to IT developer companies for requesting proposals. One of the tasks planned for the next quarter is to map up such companies and to define development needs, as a result of which offers will be requested in order to estimate the costs.
The investigation of competition law matters raised several substantial questions, the clarification of which takes more time than planned.
In the course of talks, MNB assured that the initiative had its support, and it even provided data on the cash flow through the central bank over the past year in order to facilitate estimations on savings.

Visit from the President of the EPC

The Hungarian Banking Association has been a member of the EPC[9] since 2014, when the SEPA Association ceased to exist. During this period - which was also the period when EPC was restructured - we had a single visit from one of EPC's executive officers, Managing Director Etienne

[9] European Payments Council

Goosse, in the autumn of 2014. This May, we were honoured to receive *EPC President Javier Santamaria* for a visit at the Hungarian Banking Association during his stay in Budapest.

In addition to the members of the SEPA working committee, members of the payment services and cash working groups were invited to the meeting, along with representatives of MNB and MÁK. In his address, *President Santamaria* paid a lot of attention to the renewal of EPC's organisation and of the contents of its activities, which was necessitated by the changes in the regulatory environment, the entry of ERPB[10], chaired by the ECB, into the management of the SEPA process - the new actor that assumes the role of the SEPA Council, and the emergence of various trade and advocacy organisations, the new types of payment service providers, such as TPPs. In the new organisation, in the framework of the so-called ***two-module management model,*** practical activities related to the schemes already in operation were separated from the development and planning activities to be carried out by the EPC, usually on request from the ERPB. He discussed the most significant achievement of the recent past, the *SCT Inst* ***instant credit transfer scheme*** elaborated by EPC based on the SEPA transfer scheme, which has been in operation since November 2017, with over a thousand participants. He mentioned that EPC was participating in the work related to the SEPA card framework rules only as a member of ECSG[11]. At the same time, he highlighted the importance of the progress made in the work related to electronic ***presentment of invoices and settlement*** and ***mobile payments between natural persons*** with particular regard to the context of the instant credit transfer scheme.

SWIFT: General Meeting – election of board members

Members of the Hungarian UMG[12] – ten banks – were directly involved in the decisions of the General Meeting held on 14 June 2018 concerning personal issues, as the three-year term of *Soren Haugaard*, who has been representing our country group until now, expired. Our banks gave a vote of confidence to him during the nomination period ending early May. Based on the support of Hungarian and other members within the country group, the General Meeting elected him as member of the SWIFT Board for another three-year term ending in 2021. In addition to him, another 11 Board members (including four new members) were elected, one member resigned his membership, while the appointment of three members expired for good.

In the Board meeting immediately following the General Meeting - which was the 254th Board meeting - decisions were made concerning the management and organisational structure of SWIFT. Pursuant to the approved strategy for the period running up to 2020 - which is the most important for the Hungarian UMG - it was confirmed that BPC[13] should accelerate its activities related to compliance in connection with the GPI[14], real-time payments and financial crime. It should also be highlighted that the Board set up a new committee (Banking Services Committee), which will focus on standards - to the move to the ISO 20022 XML, which was confirmed also based on this year's survey, in as broad a range as possible - and APIs[15]. It was confirmed that *cyber protection*, the CSP[16] and KYC-SA[17] continue to have priority, so that the Hungarian UMG will also need to put a corresponding emphasis on this in the course of its activities.

[10] Euro Retail Payments Board
[11] European Card Stakeholder Group
[12] User and Member Group
[13] Banking and Payments Committee
[14] Global Payment Innovation
[15] Application Programming Interface
[16] Customer Security Programme
[17] Know Your Customer – Security Attestation

VIII. Taxation

HBA proposals for the amendment of the tax laws

In order to resolve the issues that arise, the Taxation Working Group continuously liaises with the ministry in charge of financial regulations. A number of letters have been exchanged concerning accounting for the ***depreciation of intangible goods*** according to IFRS and its application to corporate tax. Finally, our proposals were incorporated into legislation in the course of the legal amendments made early in the summer.
An amendment to the *Act on local industry tax* also became necessary due to the application of IFRS. This proposed amendment was also accepted by the Ministry of National Economy, eliminating the ***double*** taxation of ***certain accrued income.***
In the case of transferring pension savings accounts (NYESZ-R accounts) from one service provider to another, we made proposals to ***clarify obligations to issue certificates and provide data***, and these proposals were also incorporated in the amendments made to the law in the summer.
We also suggested a simplification of the obligations to issue ***long-term investment accounts (LTIA) at the end of the fifth year*** and to provide data. So far, no progress has been made in this field.

The Ministry of Finance's spring tax package

The ***proposed amendments to tax legislation*** (hereinafter: ***tax package***) were published on 18 June 2018. A part of the amendments has already been addressed earlier. The tax package will bring a significant change in the tax liabilities for the year 2019. The sector is greatly affected by the provision that for transfers made by private individuals from their payment account (except for payment accounts used by individual entrepreneurs for business purposes), ***the part of the amount transferred not exceeding HUF 20,000 shall not be a base for the financial transaction levy*** per transfer. The Banking Association made a proposal to make retail transactions free of the transaction levy, but this was not accepted.
One of the technical modification of the tax package will ***eliminate the special tax levied on credit institutions***[18], and will clarify the determination of the special tax for financial organisations for those who apply IFRS.
At the same time, the Banking Association's proposal ***aimed at reducing the burdens of the special tax on financial undertakings*** was not incorporated in the package, though it would have harmonised the reduction of tax rates applicable to credit institutions with the tax rates applicable to financial undertakings.
We also collected several arguments for the elimination of preferential taxation for employee perks (employer's contributions to voluntary mutual insurance funds, personal insurance, etc.) and the imposition of a tax liability on employer's support for housing purposes from the sector's experts, and forwarded them to the Ministry of Finance, but unfortunately to no avail. The contents of the approved legislative package remained unchanged compared to the initial proposal.
In the tax package, the legislator settled the open issues of the obligations to report bank accounts held abroad, which the Banking Association had requested the Ministry of National Economy to do back at the beginning of the year.

[18] The "***special tax for credit institutions***" was regulated by Section 4/B of *Act LIX of 2006 on the special taxes and contributions to improve the balance of public finance.* The "***special tax on financial organisations***" remained in place, the tax payment of institutions has not changed. .

The impact of the KELER-BÉT[19]-MNB concept elaborated for the management of corporate events related to securities on the taxation tasks to be completed by the sector

In the framework of a ***corporate event reform***, KELER, the Budapest Stock Exchange and the Hungarian National Bank proposed consultations in May in order to ensure international compliance required for KELER's accession to the securities settlement system, and to further enhance transparency and automation in the field of processes and operation. The Hungarian Banking Association considers it important to develop regulations and market practices created in line with international standards for corporate events concerning ***payment of yields on securities, tax refunds and automatic compensation of entitlement***, taking into account the lengthy chains of mediation that often occur in the international chain of investors.
In line with the project schedule, there will be further consultations on the topic in the form of a dedicated working group, in which the professional associations of stakeholders - including the Hungarian Banking Association - will take part actively.

Late in June 2018, the Banking Association held consultations with the experts of members on taxation and securities settlement. During the talks, the participants explained that shifting payer's tasks related to taxation to the institutions providing investment services, as outlined in the reform of corporate events, may be supported only ***if the obligations related to execution are simplified*** and the taxation rules for interest income are adopted in the taxation of corporate events as well. This requires amendments to a number of laws, such as *Act CXVI of 1995 on personal income tax, Act CL of 2017 on the order of taxation, Act LXVI of 1998 on health care contributions,* and *Act LIII of 2017 on the prevention and combating of money laundering and terrorist financing.*

IX. Developments within the Banking Association

General Meeting

The Hungarian Banking Association's regular annual Assembly Meeting was held on 20 April 2018, and was attended by Minister of National Economy Mihály Varga and Deputy Governor of the Hungarian National Bank Ferenc Gerhardt as invited guests. The Meeting remembered Zoltán Urbán, former CEO of Eximbank, member of the Hungarian Banking Association's Presidency, who passed away in a dramatic and unexpected way.

During the event, the decision-making body approved the Association's reports on and plans for activities, business management and budget, and elected Tamás Bernáth, President-CEO of MFB, as a new member of the Presidency. In addition, the heads of member institutions of the Hungarian Banking Association again adopted a common position - a communiqué of the Banking Association - according to which following the long difficult period after 2008, the Hungarian banking sector concluded an outstanding year. The effectiveness of the past year was in line with international and regional trends. The document published for the press and the public put particular emphasis on the fact that in order to improve our competitiveness, it was absolutely necessary to overcome bureaucratic over-regulation at national level, and to strengthen continuity and predictability in financial policy, which were the basic pre-requisites for promoting the fast and predictable development of the economy.

Traditionally, the Hungarian Banking Association awards prizes to bank staff members who have made a significant contribution to the operation and development of the credit institution sector

[19] Budapest Stock Exchange

during its General Meeting. In 2018, the Hungarian Banking Association’s Golden Beehive Award was presented to:

- Bence Gáspár (OTP Bank) for outstanding communication activities in the credit institution sector and for his commitment;
- Rita Jeges (Erste Bank) for the efforts made to constructively support the Hungarian Banking Association’s work;
- Marcell Király (K&H Bank) for his outstanding work done in the fields of corporate financing and SME development in the banking sector;
- Róbert Nagy (Garantiqa Hitelgarancia) for outstanding and innovative activities that contributed to growth in guaranteed lending to small and medium-sized enterprises;
- Attila Rankó (Deutsche Bank) for outstanding professional activities performed in the fields of payments and the adaptation of European banking regulations.

Communication statistics and recent news

As regards communication, the second quarter of 2018 may be said to have been an average period, with regular but not outstanding interest from the press. According to our statistics, during the quarter we were featured in online media approximately 186 times, 47 times in printed media and 45 times in electronic media. Throughout the entire quarter, the Hungarian Banking Association had approximately 280 appearances in Hungarian media.

Following the General Meeting, the joint professional position of the sector on topical issues was published in the form of issuing a communiqué. During the quarter, we responded to banking topics that were addressed by the press and the public by releasing a number of executive interviews and statements (made by the President, the Vice President and the Secretary General). After the changes made in regulations by MNB concerning consumer lending, a statement by the Secretary General reinforced our commitment to the efforts in economic regulations that enhanced predictability for customers.

The major communication topics of the quarter were the issues of the implementation and application of PSD2 and GDPR concerning the banking sector, bank card and ATM security, as well as retail lending and the Certified Consumer-Friendly Housing Loans.

Money Week - European Quiz

The events of the Money Week realised in Hungary between 5 and 11 March 2018 achieved a unique ate of participation, with the involvement of over 200,000 students/pupils and 1,650 registered teachers.

A new factor this year was the ***European-level quiz game*** proposed by the European Banking Federation in order to support raising awareness based on experience. The EBF as chief organiser of the European Money Week proposed the European Money Quiz in order to transfer knowledge on finances to the pupils of the 30 participating countries in a playful manner, in collaboration with Kahoot!.
The Hungarian finals of the MONEY WEEK QUIZ were held at the Training Centre of Fáy András Foundation on 27 March, accompanied by interesting games and programmes for the interactive development of financial culture. The quiz was realised on a pilot basis, with the participation of 10 invited schools. The institutions were invited to the quiz on a regional basis, with regard to their especially active efforts to develop financial culture. In May, the winning team of the Hungarian finals – the pupils of Arany János Elementary and Secondary School - represented Hungary in the finals of the European Money Quiz held in Brussels

The quiz game consisted of questions and exercises dealing with financial knowledge, digital security, money use and the related mathematical background, in a modern form accessible by mobile phone or computer. The MONEY WEEK QUIZZES on the topics listed are accessible on the kahoot! platform at any time, offering an opportunity to playfully enhance financial knowledge to several thousand pupils.

Meeting of the regional banking associations

The meeting of regional banking associations, which already enumerate eight members, was held in Zagreb early June; this was the first meeting this year but the thirteenth such meeting, which offered an opportunity to participants to discuss international regulatory and market trends and national developments worthy of international attention.
In addition to topical issues of the implementation of EU regulations (PSD2, GDPR), the Zagreb meeting focused on the regional cooperation related to fees for international EUR transfers under *EU Regulation No 924/2009*; the lopsided application of the principle of proportionality in the judicial practice of the EU and of Member States; the developments in retail lending that still warrant attention; and the practices of Member States for handling interest rate risk.

Other working committees and working groups

- *Agricultural Working Group*

The Agricultural Working Group had several meetings during the second quarter. The working group attended the workshop entitled ***"Development of financing processes and support in food industry, 2017"*** with the involvement of AKI (Agricultural Research Institute) and the Undersecretariat of the Ministry of Agriculture in charge of Agribusiness. The purpose of the event was to assess financial processes in 2017 and to review and discuss trends expected for 2018. Participants had an opportunity to listen to a presentation by AKI's representative ***on the aids for and lending situation of the agriculture and the food industry in 2017***, after which the Ministry of Agriculture's representative presented the **details and latest developments of aid policy.** To conclude the programme, participants expressed opinions and shared practical experience in the form of a roundtable discussion.

As requested by the working group, the Deputy Undersecretariat of the Prime Minister's Office in charge of Agricultural and Rural Development Programmes elaborated the ***form on reporting the registration of mortgage associated with the calls for applications under the Rural Development Programme,*** which was published on the Széchenyi 2020 website. Beneficiaries are able to satisfy their reporting obligations related to the establishment of mortgages using this form.

The Prime Minister's Office issued a position concerning ***investment aid under the Rural Development Programme,*** according to which the ***period in which missing documentation is provided shall not be imputed in the 7-day and 15-day deadline*** set for ***ex post and subsequent audit*** based on law. (Section 96(2) of *Government Decree 272/2014 (5 November) on the procedures for spending aid originating from certain European Union funds during the 2014–2020 programming period)* Practical experience indicates that so far, all documentation submitted by beneficiaries had some missing items, most of them had to be addressed twice, so the actual duration of administration may naturally be extended to cover the period in which such missing items are provided.

As of 2015, the Ministry of Agriculture has been collecting figures on the ***total borrowings and new borrowings of individual farms*** in the framework of *survey under registration number 1703* based on *Government Decree 288/2009 (15 December) on the surveys and reception of data for the National Statistical Survey Programme.* As of 2016, the survey was extended to business entities as well, because it is important to have reliable data available in a breakdown by detailed TEÁOR, the purpose of lending (investment, current asset loan) and business form. As a result of consultations, the survey was extended to include ***loans to pre-finance aid*** (in a breakdown by long-term current asset loans and short-term HUF loans) and the ***SME classification*** based on *Act XXXIV of 2004 on small and medium-sized enterprises and support for their development.*

- *EXIM Sub-Working Group*

During the meeting of the EXIM sub-working group and its product education days in the second quarter, EXIM's representatives reported that, in line with EXIM's strategy and mission, it launched its new ***export recovery financing programme*** for Hungarian exporters and their vendors as of 1 July 2018. The earlier schemes for advance financing of exports will be replaced by the export recovery ***current asset*** (framework facility and ad hoc), ***investment*** (framework facility and ad hoc), and ***leasing re-financing*** products provided under the new lending programme. They provided information on the details of ***EXIM's amended Business Regulation*** that took effect in mid-June, which contained the exclusion lists referred to in product descriptions. The working group commented on the Programme's ***public product descriptions,*** as well as the ***drafts of the ad hoc investment loan facility agreement and the ad hoc non-revolving current asset loan agreement.***

- *Credit Guarantee Working Group*

With regard to the importance of the issue, a joint meeting was held between the CEO Forum and the Credit Guarantee Working Group concerning the ***increased additionality of institutional guarantees*** in the second quarter. As a result of several months of collaboration between MNB, the Hungarian Development Bank and the Ministry of Finance, the package of proposals for fine-tuning the guarantee system was produced, the details of which were presented. Achieving and maintaining growth in corporate lending remain goals for the longer run, and they are goals endorsed by the government and MNB. The package of proposals was warranted by the economy's entry into a new phase, the reduction of the funding gap, and the attention paid to auxiliary aspects of institutional guarantees. As regards the latter, a requirement for guarantee organisations was expressed, according to which guarantees assumed with a government re-guarantee should be granted primarily to transactions that are more risky or have lower collateralisation.

- *Election of a president for the HR Working Committee and the Treasury Working Group*

Following the resignation of the HR Working Committee's former head - Ferenc Rolek (Budapest Bank) -, the May meeting of the working committee elected József Végh, HR director of K&H Bank, with a unanimous decision made after lengthy preparations, and the appointment was confirmed by the Presidency in its June meeting.

The head of the Treasury Working Group, Krisztián Kovács (OTP Bank) resigned due to a change of job early in May. The working group elected Attila Kovács, director of OTP Bank's Treasury Middle Office, with three-quarters of votes cast in written voting, in mid-July. The Presidency approved his appointment to the position in its June meeting.

- *Mortgage Bank Working Group*

The European Covered Bond Council releases issuance to statistics and the features of legal systems in a breakdown by member state in the ***ECBC Factbook*** each year, for which the ***aggregate figures of Hungarian member organisations*** were submitted. The ECBC Factbook is published in the autumn of each year.

The Legal and Capital Markets Working Group reviewed the draft ***Covered Bond directive*** and the European legislative package ***amending the CRR***[20] ***regulation on capital requirements*** and commenced the elaboration of the Hungarian market operators' position concerning them. The position is expected to be adopted and submitted to the Ministry at the end of the summer.

The ***22nd Central European Conference on Covered Bonds*** will be held in Budapest on 22 and 23 November 2018, hosted by VdP German Mortgage Banks Association and the Hungarian Banking Association. The event will be hosted by the Hungarian National Bank, which will provide active professional assistance for the conference as well. The two-day programme was put together and the panel participants were invited to the event in collaboration with the Legal and Capital Markets Working Group during the second quarter.

In the framework of the Real Estate Appraisal Working Group, ***early accession to the EeMAP initiative*** was discussed, considering that energy efficiency mortgage may play a central role in Europe's new financial strategy for sustainability. The purpose of the EeMAP (Energy efficient Mortgages Action Plan) initiative endorsed by the EU is to elaborate an energy efficiency loan product for banks and borrowers through which more favourable loan schemes will be available to those who wish to invest into green (energy efficient) real estate.
The Real Estate Appraisal Working Group also consulted on the conditions for ***participation in the professional training of the Hungarian Real Estate Association*** and potential collaboration. In addition, the feasibility of a register of property appraisers in IT and legal respects was also on the agenda. The working group also looked at the possibility of appraisal without an on-site visit, namely, the extent to which real estate value and credit collateral value could be determined by desktop appraisal in certain settlements and for certain types of real estate.
In the framework of the project for simplifying regulations for consumption lending, the working group also commented on the proposals aimed at ***simplifying the appraisal of real estate deemed to be residential real estate and arable land.***

- *Leasing Working Group*

At the meeting of the Leasing Working Group held in the second quarter, the representatives of Garantiqa Hitelgarancia Zrt. described the introduction and details of the Garantiqa ***COSME LGF***[21] Portfolio Guarantee Scheme. The purpose of the ***COSME Programme*** is to support viable SMEs, which would not be eligible for loans due to their higher risks or the lack of the collateral expected by financial institutions, to obtain credit. The programme will grant up to 90% guarantee for loans of businesses, and will be available in the framework of (open and closed end) financial lease financing.

As a result of the consultations held by the Leasing Working Group with the representatives of the Ministry of Agriculture, the survey under registration number 1703 mentioned earlier was ***extended to include figures on leasing transactions.*** On the other hand, the Ministry does not involve leasing companies in data collection as many of them indicated that their current IT systems did not enable data provision based on TEÁOR.

[20] Capital Requirement Regulation
[21] Competitiveness of Enterprises and Small and Medium-sized Enterprises Loan Guarantee Facility

The working group ***also received information on the major components of the project for a single lending register of the central bank (HITREG).*** Credit institutions will have to submit data for the first time about June 2019, while financial enterprises will have another year to do so after that deadline.

In connection with the introduction of the ***export recovery leasing scheme,*** EXIM's representatives explained the background for, the benefits and disadvantages of implementing the scheme, the programmes affected and the temporary rules. The related training day was used to explain product documentation, product conditions, the product brochure and the calculator of the financial model. The working group reviewed the template contracts of the product and, based on the remarks made during the meeting, EXIM amended the product description to be published.

ANNEX – INTERNATIONAL OUTLOOK: REGULATION, SUPERVISION

I Global regulation

I.1 Financial Stability Board (FSB[22])

I.1.1 Assessing financial vulnerabilities and stocktaking of the 2018 workplan

In late June, the FSB held a Plenary Session where the members ***reviewed the progress in the 2018 workplan.*** While assessing market developments, they found that the security of the financial system has substantially improved in the past decade but stressed that it was vital to monitor financial markets during the transition away from the very low interest rate environment. ***The key vulnerabilities mentioned included high sovereign, corporate and household indebtedness*** as well as the ***higher financing costs*** as risk appetite tapers off. Furthermore, the impact of sharply rising yields on cross-border capital flows was also mentioned.
In preparation for the G20 meeting in July, the role of crypto-assets was assessed, and the Plenary approved the publication in July of a cyber lexicon developed by the FSB.

With respect to the ***effect of reforms,*** there are two ongoing evaluations: on ***the financing of infrastructure investment*** and on ***incentives to centrally clearing OTC derivatives.*** The Plenary also agreed upon two further evaluations regarding SME financing and the management of the too-big-to-fail issue.

The topics discussed also included the following:

- development of consistent leverage requirements for investment funds in connection with the transformation of shadow banking,
- assessment of the firm-level data collection framework,
- reviewing the processes and transparency of the FSB,
- reviewing representation in regional consultative groups and the inclusion of some new members, and
- reviewing the activities of the Task Force on Climate-related Financial Disclosures

I.1.2 Measures aimed at creating effective global resolution regimes

At the invitation of the EBF[23], FSB Secretary General Dietrich Domanski held a presentation in June ***on establishing an effective, global resolution framework.*** In his speech, he described how the 2007–2008 financial crisis led to the calls for creating cross-border resolution regimes. He presented the efforts at implementing resolution rules, the current developments and the further tasks for G-SIBs[24] and authorities.

There has been considerable progress ***on implementing the rules on TLAC[25].*** In recent years, G-SIBs have issued a significant amount of TLAC instruments to meet the TLAC requirements taking effect in 2019 and January 2022. However, ***the lack of consistent disclosure requirements*** makes comparing institutions difficult. Further efforts are needed for fulfilling ***internal TLAC*** requirements. In early June, the FSB requested ***public feedback on the technical implementation of TLAC standards.***

[22]The top-level international body for financial standard-setting
[23] European Banking Federation
[24] Global systemically important banks
[25] total loss-absorbing capacity

The FSB prepares the thematic peer review of the implementation of the "*Key Attributes of Effective Resolution Regimes for Financial Institutions"*, with a special focus on resolution planning. ***Feedback was*** also ***sought from stakeholders*** on ***resolution planning.***

Following the consultation announced in November 2017, the FSB finalised its ***Principles on Bail-in Execution*** and its guidance entitled ***Funding Strategy Elements of an Implementable Resolution Plan.***

The authorities continue to work on eliminating the obstacles to resolvability, focusing on institution-specific, cross-border cooperation agreements. The FSB's work also includes the ***establishment of the disclosure requirements on resolution strategies and plans*** as well as the ***regulation of trading book wind-down.***

I.1.3 Further key FSB documents published in Q2

Toolkit to mitigate conduct risk
Second consultation on UPI[26] system governance
Public consultation on recommendations for consistent national reporting of data on the use of compensation tools to address misconduct risk

I.2 Basel Committee on Banking Supervision

I.2.1 Fourteenth progress report on the implementation of the Basel III reforms

The report published in April reflects the status of the implementation of Basel III reforms as of the end of March 2018, and it addresses for the first time the rules adopted in December 2017 and taking effect on 1 January 2022. GHOS[27], the oversight body of the BCBS, expects ***full, timely and consistent implementation*** by member jurisdictions in the Committee.
Since the last progress report published in October 2017, the members have made further progress in implementing the standards. Accordingly:

- the leverage ratio requirement based on the current definition of exposure is now in force in most jurisdictions,
- 24 out of the 28 members have a final or draft NSFR[28] regulation,
- 19 jurisdictions have adopted the revised securitisation framework or prepared a draft for it.

However, only minor progress has been made in the case of the technical rules that were supposed to be implemented by the end of 2017 (standardised approach to measuring counterparty risk, capital requirement on exposures to CCPs[29] and on equity investments in funds). The jurisdictions continue to work on the implementation of the rules to be implemented within a year (namely large exposure regulation, the IRRBB[30] standard and the TLAC requirements).

[26] unique product identifier
[27] Group of Central Bank Governors and Heads of Supervision
[28] net stable funding ratio
[29] central counterparties
[30] interest rate risk in the banking book

I.2.2 Effective risk data aggregation and reporting

The Committee also continuously monitors ***the implementation of the Principles for effective risk data aggregation and reporting.*** The progress report on this topic is ***based on the self-assessment of the supervisory authorities of G-SIBs,*** and it examines the implementation of effective risk data aggregation and reporting principles in 2017. (The previous progress report was prepared one year earlier, about 2016.) According to the report on 30 G-SIBs, only marginal progress has been made in implementing the principles in the past year. ***Due to complexity and the dependence on IT projects, banks find it difficult to apply the principles,*** therefore the expected implementation date has been pushed out in the case of several banks. Supervisory authorities need to specifically focus on implementation, including requesting reports at the meetings with banks' boards of directors on the progress made. Home–host cooperation should also be facilitated during the implementation of the principles.

I.2.3 The treatment of large exposures in the Basel capital framework

The ***large exposure regulation*** adopted by the Basel Committee in April 2014 ***comes into force on 1 January 2019.*** Large exposures mean exposures equal to or above ***10% of Tier1 capital,*** while the risk-taking ***cap is set at 25%.*** In the case of G-SIBs, the ***limit is lower, 15%.*** According to the regulation, banks need to report to national supervisors not only the large exposures but also all other exposures that would be considered large without taking into account the effect of credit risk mitigation or exemptions. The 20 largest exposures must be reported even if they do not reach the large exposure limit. ***Any breach of the limit should be immediately reported and rectified.*** The limits should be applied not individually but to (groups of) connected counterparties by taking into account the on- and off-balance sheet items in the banking and the trading book. The exposures should be recorded with the method used during capital requirement calculation. Exposures to sovereigns and central banks are exempt from this regulation, and the receivables against the public sector can be disregarded (just like in the case of credit risk capital requirements). To ensure that payment and settlement processes remain uninterrupted, intraday interbank receivables can also be disregarded.

I.2.4 Simple, transparent and comparable short-term securitisation

In April, the BCBS and the IOSCO[31] published two joint documents on ***simple, transparent and comparable short-term securitisation.*** The first is about identifying ***short-term STC[32] securitisation,*** and the second is about its ***capital requirement.***
The identification criteria are based on the 2015 document on STC securitisation, taking into account the features of ABCP[33] instruments.
The rules on the capital requirement for short-term STC securitisation are consistent with those on STC securitisation, and allow special treatment, typically in the case of ABCP instruments. While finalising the rules, the authorities took into account the feedback from the consultation announced in July 2017.

I.2.5 Technical amendment to the NSFR

The BCBS amended the calculation of the NSFR at the end of June. The technical amendment, effective immediately, is ***linked to the treatment of extraordinary monetary policy operations,*** and

[31] International Organization of Securities Commissions
[32] simple, transparent and comparable
[33] asset-backed commercial paper

allows a reduced RSF[34] factor to be used for central bank instruments with a maturity of more than six months, with an upper limit of 5%. The amendment provides greater leeway in applying central banks' extraordinary liquidity-absorbing toolkit.

I.2.6 Assessment of cryptocurrencies

The BIS[35], the "parent institution" of the BCBS, provided a detailed analysis and assessment of cryptocurrencies in its 2017 annual report. It examined whether cryptocurrencies can fulfil the role of money, and which special economic issues they could address, if any. ***Overall,*** the analysis is ***rather negative in its assessment of cryptocurrencies: confidence in them,*** which is key, ***is quite fragile,*** and they can simply stop functioning and lose all their value. And even if confidence could be maintained, cryptocurrencies cannot adapt to demand, their value fluctuates widely, and their technology is inefficient and wasteful in terms of energy use. It needs to be tested whether the technology underpinning cryptocurrencies can simplify the administrative processes of financial transactions. The analysis mentions the need for the measures aimed at regulating the personal use of the technology and combating illicit use, and also examines the issue of central bank digital currencies.

I.2.7 Enhancing the wholesale payments infrastructure

The CPMI[36] urges stakeholders (banks, money market infrastructures and other financial institutions) to pursue a ***common strategy to improve the security of wholesale payments.*** The finalised strategy, "*Reducing the risk of wholesale payments fraud related to endpoint security",* published in May, contains seven elements and seeks to provide help to operators and participants of payment systems, messaging networks as well as regulatory and supervisory authorities. The strategy should be implemented holistically, and it covers all crucial areas in connection with preventing, detecting, responding to and communicating about fraud.
The governors of the central banks participating in the CPMI expressed their commitment to the strategy. They will continuously monitor progress in the implementation during 2018 and 2019, and decide on the need for further action.

I.2.8 Further joint CPMI–IOSCO documents in Q2

The "Technical guidance on the harmonisation of critical OTC derivatives data elements" aims to harmonise data reported on OTC derivatives contracts to trade repositories besides the Unique Transaction Identifier and the Unique Product Identifier. The necessity and harmonisation of reporting was decided by the G20 leaders to improve transparency, reduce systemic risk and prevent market abuse. The information may be used by authorities while carrying out their legal obligations and prudential duties. The aggregation of the data allows the OTC derivatives market activities to be reviewed and a better assessment to be gained about the risks to financial stability.

The document entitled ***Framework for supervisory stress testing of central counterparties (CCPs)*** pertains to the stress tests affecting multiple central counterparties and performed by one or more supervisory authorities. The macro-level stress tests that seek to assess common effects may help authorities in gaining a better understanding about the ***nature and magnitude of the interdependencies on the market.***

[34] required stable funding
[35] Bank for International Settlements
[36] Committee on Payments and Market Infrastructures: similar to the Basel Committee on Banking Supervision, it operates under the auspices of the BIS.

The CPMI and the IOSCO continue to ***monitor the implementation of PFMI***[37], which contains the international standards on payments, settlement and trade repositories. The goal is to ensure the stability and resilience to financial shocks of the infrastructure serving (supporting) global financial markets. The report presents the progress made by central counterparties in the implementation of the PFMI. Some of the 19 CCPs under review exhibit substantial shortcomings in risk management and recovery planning.

II European regulation

II.1 General operating framework

II.1.1 Simplified use of EU funds

Soon ***simpler rules will apply to the use of money from the EU's budget.*** On 19 April 2018, the European Council endorsed an agreement reached with the European Parliament regarding the so-called omnibus regulation on the financial rules on the EU budget. The new regulation amends the ***budget regulation setting out the general framework of budget management*** and the ***legal acts governing the EU's multiannual programmes*** linked to specific policy areas, for example cohesion policy. Simpler rules will apply to the use of various funds, irrespective of whether they are managed directly by the Commission, indirectly by various organisations and bodies or jointly with national authorities.

According to the amendment, the ***reimbursement of costs*** will be easier, and the regulation on ***combining funding sources*** will be simpler. ***Single checks and assessments*** are sought to be achieved. Moreover, the ***EU's financial rules are being reorganised to make them more concise and easier to understand.***

There have also been changes geared towards achieving specific objectives. The new rules will make it easier to use the EU's structural funds for the integration of refugees and migrants. Strengthened rules apply to combating tax avoidance and shell companies.

To make the EU budget more focused on results, enhanced provisions will pertain to the ***performance measurement of the projects receiving EU funds.***

II.1.2 The InvestEU Programme supporting job creation, growth and innovation in Europe

For the next long-term EU budget of 2021–2027, the Commission proposes to create the ***InvestEU Programme,*** which would bring ***financing provided in the form of EU budget loans and guarantees*** under one roof. InvestEU will bring together the multitude of currently available financing programmes and expand the model of the Investment Plan for Europe (Juncker Plan). (The Investment Plan for Europe has contributed to investments worth around EUR 290 billion and has provided financing to 635 thousand small enterprises.) InvestEU helps the Commission ***provide new momentum to job creation, investments and innovation.*** The new programme will consist of the ***InvestEU Fund,*** the ***InvestEU Advisory Hub*** and the ***InvestEU Project Portal.***

The Commission proposes to allocate EUR 15.2 billion **for the InvestEU Fund.** This enables the EU budget to provide an EUR 38 billion guarantee, which could be used to support strategically important projects. With the involvement of private and public sector investments, the Commission expects the InvestEU Fund to mobilise additional investments in the EU amounting to over EUR 650 billion during the seven-year period. The InvestEU Fund supports four policy areas: sustainable infrastructure; research, innovation and digitalisation; small and medium-sized enterprises; social investment and skills. The programme has a single, coherent governance structure and reporting

[37] Principles for financial market infrastructures

requirements, and it helps avoid overlaps. The European Investment Bank will remain the Commission's main financial partner in InvestEU, too.
The *InvestEU Advisory Hub* will integrate the currently available 13 different advisory services into a one-stop shop for project development assistance. The hub provides technical support and assistance to help the preparation, development, structuring and implementation of projects, including capacity building.
The **European Investment Project Portal** in the investment plan will continue to operate under the InvestEU Programme, increasing awareness about investment projects. The Portal will help connect investors and project promoters by providing an easily accessible and user-friendly database, which increases the visibility of projects and allows investors to find investment opportunities in the sector or location they are interested in.

EU financing in itself will not solve the problem of the low level of investment in Europe; ***structural reforms are still crucial***. Member States need to use all available assistance to eliminate the national barriers to investment and improve their business environment, primarily by implementing the country-specific recommendations of the European Semester. On 31 May, the Commission proposed to create a ***Reform Support Programme***, which will support priority reforms in all EU Member States and will have a total budget of EUR 25 billion.

II.1.3 Sustainable finance

The Commission's proposals published on 25 May have reinforced Europe's commitment to spearheading the fight against climate change and the implementation of the Paris Agreement. The Commission has announced ***concrete measures*** to enable the EU's ***financial sector lead the way in achieving a greener and cleaner economy.*** The involvement of the financial sector will substantially increase the efforts to reduce our environmental footprint while strengthening the sustainability and competitiveness of the EU's economy. The proposals based on the ***first EU Action Plan on Sustainable Finance*** enable **the *financial sector to support the fight against climate change.*** This also fosters economic growth and job creation, and it will support the Capital Markets Union's goals to link finances to the European economy's needs and the EU's agenda for sustainable development.
Thanks to the new rules on the environmental sustainability requirements of economic activities, more investment will flow to sustainable activities than earlier.
Key features of the measures:
1 Unified EU classification system (taxonomy) The proposal determines harmonised requirements to establish whether a given economic activity is sustainable from an environmental perspective. This makes it easier for economic actors and investors to identify the activities that are considered sustainable. Financial organisations need to inform their clients how their activities impact the planet and their local environment.
2 Investor responsibilities and disclosure The proposed regulation makes it clear how institutional investors should incorporate the ***ESG factors***[38] into their investment decision-making process. Furthermore, asset managers and institutional investors will need to show how their investment aligns with the ESG objectives, and they will need to ***disclose*** how they fulfil the requirements.
3 Low carbon emission benchmarks
4 More effective advice to customers on sustainability.

II.1.4 Commission proposal on the cooperation in taxation

In connection with the long-term EU budget for 2021–2027, the European Commission's competent directorate made a proposal for a ***regulation on the cooperation in taxation.*** The regulation mainly

[38] environmental, social and governance factors

seeks to prevent tax avoidance and tax evasion, and it aims to facilitate information exchange on taxation as well as the cooperation between European electronic systems. Feedback on the initiative was expected until 6 August.

II.2 Adoption of the Risk Reduction Package (RRP)

On 25 May 2018, the European Council has agreed on its common position on the ***RRP aimed at reducing the risks of the banking sector.*** (In EU parlance, this means the adoption of the so-called "General Approach".)

The European Commission published its proposal on the RRP (aimed at the European implementation of the rules of the Basel III Accord adopted until then) in November 2016. The package seeks to amend the CRR/CRD4[39], the BRRD[40] and the SRMR[41].

Member States had differing views in four key areas before the adoption, and the Bulgarian Presidency put forward a compromise on these issues:

- ***Introduction of the FRTB[42] regulation*** The FRTB regulation will first be introduced in line with the November 2016 status, as a reporting requirement, with a strong commitment to the timely implementation of the global standard to be finalised this year.
- ***G-SII[43] score*** An additional methodology is used for the G-SII score that takes into account whether institutions are under the SRM[44]. Competent authorities have discretionary powers to use the additional score.
- ***Exemption from the scope of CRR/CRD*** At the request of Member States, the 14 remaining promotional banks will also be exempt from the scope of the regulation.
- ***Subordination of MREL[45] instruments*** For G-SIIs and top-tier banks (with a consolidated balance sheet total over EUR 100 billion), a subordination requirement of 8% of TLOF[46] is specified, and the resolution authority receives discretionary powers to modify this downwards. Under specific conditions, the resolution authority may also revise the subordination requirement upwards. The resolution authorities may also require subordination in the case of other banks by applying the *NCWO principle*[47] and up to the level determined for large institutions. Transitional rules will apply to meeting the stricter requirements.

Pursuant to the rules, G-SII banks ***need to establish IPUs[48]*** as a condition for operation in Europe.

Following the adoption of the RRP by ECON[49] on 19 June, and after the summer break, trialouge (Council – Parliament – Commission) negotiations may start, which will hopefully produce results this year, or in April 2019 the latest, before the Parliament's mandate expires.

II.3 European implementation of the finalisation of Basel III

In its 7 May press release, the EBA welcomed the European Commission's call for advice on the European implementation of the Basel III Accord finalised in December 2017. The Commission asked the EBA to prepare a comprehensive analysis, and assess the effect of the various elements of the

[39] Capital Requirements Regulation and Directive
[40] Bank Recovery and Resolution Directive
[41] Single Resolution Mechanism Regulation
[42] Fundamental Review of the Trading Book
[43] global systemically important institutions
[44] Single Resolution Mechanism
[45] Minimum requirement for own funds and eligible liabilities
[46] total liabilities and own funds
[47] no-creditor-worse-off principle
[48] intermediate parent undertakings
[49] Committee on Economic and Monetary Affairs

reform on the banking sector and the economy as a whole. The EBA supports the Commission in the European implementation of Basel III, and it will ***assess both the quantitative and qualitative effect of the reforms*** in its response to the Commission's call for advice. First, the EBA will start ***collecting data*** in July, also covering smaller, less complex banks as well as institutions with special business models. The data collection is especially important because it will form the basis of policy recommendations, therefore broad participation is crucial. During the assessment, the EBA will closely cooperate with national authorities, the sector and the other legislators.

In its statement, the European Banking Federation also welcomed the Commission's call for advice on implementation, and highlighted the aspects that it considers especially important during the data collection. The EBF believes that the data collection should be conducted on a ***voluntary and best effort basis,*** and ***estimates*** should be accepted. The assessment should also cover the major effects on subsidiaries, and the appropriate representation of all Member States should be ensured. It is also crucial to give banks ample time to assess and comment on the proposed data tables.
The EBF specifically pointed out the assessment of the standardised approach for credit risk, the internal ratings-based approach, the CVA[50], the output floor, the operational risk framework as well as the MREL and TLAC requirements.

II.4 Banking Union

Contrary to previous promises, at the 29 June EU summit, the parties ***postponed the decision on the reform of the euro area until December. The parties will decide in December on the financial backstop,*** amounting to EUR 60 billion, ***to be used during the resolution of failing banks,*** while ***no specific date was set for launching negotiations regarding the EDIS[51].*** The backstop will be ***financed by the ESM[52].*** The details will have to be established by the Eurogroup. The governance structure of the backstop is still debated, since Germany wishes for strong political control over use, so that the finance ministers and national parliaments can decide on it.

II.4.1 The Single Supervision Mechanism (SSM)

The European Central Bank ***launched a public consultation on the guide to internal models.*** The consultation aims to ensure that ***banks apply the rules on internal models in a consistent manner.*** The general topics chapter published as a first step seeks to ensure the uniform interpretation of the existing legal framework. The first part of the draft guide discusses general, non-model-specific topics, such as the implementation of internal models, governance structure, validation, internal audits, model use, model change management and third-party involvement in the creation of the model. The full guide will also include model-specific chapters on credit, market and counterparty risks. Consultation will be held on this at a later stage. The draft was prepared in close cooperation with NCAs[53], and it pertains to the institutions directly supervised by the ECB. It draws on the lessons learnt during the TRIM[54] project as well as the feedback received on the preliminary version of the guide (February 2017).

The ECB announced a ***public consultation on cyber resilience oversight expectations*** in April. The expectations on the oversight of the ***cyber resilience of financial market infrastructures (FMIs)*** are based on the CPMI–IOSCO joint global guidance. The 2016 guidance expected immediate implementation from FMIs, while the supervisory authorities had to prepare the supervisory

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[50] Credit valuation adjustment
[51] European Deposit Insurance Scheme
[52] European Stability Mechanism
[53] national competent authorities
[54] Targeted review of internal models

assessment on the compliance with the FMI guidance within their own jurisdiction. The ECB expected input from stakeholders on the draft guide in a consultation that run until 5 June.

The ECB set the ***annual supervisory fees for 2018 at EUR 474.8 billion.*** The surplus from 2017 covers some (EUR27.7 million) of the total cost for 2018, estimated at EUR 502.5 million. 90% of the fees will be paid by the directly supervised significant institutions, while 10% will be paid by smaller banks, at the consolidated level. The year-on-year rise in the fee is due to Brexit and the ECB's duties in the biennial stress tests. Banks will be informed about their own fees in October.

In June, the ECB ***updated its manual for Asset Quality Review (AQR) of banks.*** The update became necessary due to the entry into force of the IFRS 9 standard as well as the increased importance of business models focused on investment services. The manual pertains to the banks directly supervised by the ECB.

II.4.2 The Single Resolution Mechanism (SRM)

The first ***Boardroom Dialogue*** was held as part of the cooperation between the SRM and the EBF. The agenda included the setting of the MREL requirement, the assessment of resolution plans and the establishment of resolvability. In her keynote speech, SRB[55] Chair Elke König underlined the following:

- The aim is to achieve ***binding MREL requirements*** for all significant banking groups ***at the consolidated level*** in 2018, and the individual requirements at the material entity level will also be set.
- During the continuous dialogue with the sector, the SRB is doing its utmost to make its decisions as ***predictable and transparent*** as possible.
- The ***Bank Letters*** sent to the SRB banks include the priorities for the given institutions, including the first assessment of resolvability.

She welcomed the progress made in the adoption of the Risk Reduction Package, and agreed that the minimum subordination requirements should be enforced not only for G-SIBs but also in the case of other systemically important banks. The new rules should not be too complex or limit resolution authorities' discretionary powers in setting MREL requirements. She also stressed that when considered realistically, central banks and the ECB need to participate in providing liquidity during resolution.

On 30 June 2018, the SRB ***collected EUR 7.5 billion from*** 3,315 institutions in annual contributions for the ***SRF***[56]***,*** expanding it to EUR 24.9 billion. (The target for 2023 is 1 per cent of covered deposits.)

II.5 The Capital Markets Union

II.5.1 Developments on the new bankruptcy regulation proposal (directive on insolvency, preventive restructuring, second chance for entrepreneurs egime)

In May, the ***Member States achieved a partial general approach*** on the insolvency directive. The agreement mainly concerned

1. workout (availability of the option of debt forgiveness, duration of the exemption period, the start of the period),
2. increasing the effectiveness of the insolvency and workout procedure, and
3. the monitoring of the procedures.

[55] Single Resolution Board
[56] Single Resolution Fund

The ***compromise proposal submitted to the Parliament*** contained several proposals supported by the European Banking Federation (for example it not allowed illiquid debtors to enjoy a moratorium on payments), however, it still failed to reflect the EBF's opinion in many respects. For example:

- The initial duration of the stay will remain 4 months.
- The stay can be extended to 10 months (contrary to the 12 months in the original proposal and the 9 months suggested by the EBF).
- The cross-class cram-down must be approved by the majority of classes (instead of majority in term of values as suggested by the EBF).

The ***EBF sent a letter to the Parliament's rapporteur and the shadow rapporteurs*** and repeatedly asked them to limit the duration of the stay in three months, and that cross-class cram-down should only be available when creditor classes participating in the composition hold at least ***half of the receivables.***

The EBF also sent a letter to the competent decision-makers (Commission President Juncker and the representatives of the Bulgarian and Austrian Presidency) urging them to ***discuss*** the *bankruptcy regulation directive on insolvency, restructuring and second chance, and the directive on credit servicers, credit purchasers and the recovery of collateral* ***in one panel, in close coordination*** due to their closely related content. The EBF also requested the Commission to prepare a comprehensive impact assessment on the effect of the proposed bankruptcy directive on collateralised lending in Europe.

II.5.2 Commission proposal on making it easier for companies to move across borders and use online solutions

At the end of April, the Commission ***proposed new company law rules that seek to make it easier for companies to merge, divide and move within the Single Market.*** The guarantees in the new rules ensure that employee rights are adequately protected and that the amendments cannot be used for tax avoidance and tax evasion. The new rules will stimulate the growth of companies by ***digitalising the process of setting up and running businesses.***

The ***proposal*** sets out ***harmonised, common EU procedures for moving, merging and dividing companies.*** The new rules on these cross-border activities will help national authorities combat abuse through specific measures. Effective safeguards are in place regarding transformations that prevent abusive practices to circumvent taxation rules, undermine employee rights or jeopardise creditors' or minority shareholders' interests. In such cases, the operation can be stopped by the national authority of the Member State of departure. The current national rules vary widely or entail excessive administrative hurdles. Fear from red tape discourages companies from seeking new opportunities outside their own country.

According to the new rules, companies will be able to ***register themselves, create new branches and submit documents to the business register online in all countries.*** Going digital makes setting up a business more efficient and cost effective. (Currently only 17 Member States offer full-blown online business registration procedures.)
The ***once-only principle*** does away with the need for companies to submit the same information several times to different authorities during their life-cycle; detailed information on businesses will be available to all interested parties free of charge in the business register. To prevent fraud and abuse, national authorities will be entitled to access each other's information on disqualified directors, and they can request the physical presence of company executives if they have reasonable grounds to suspect fraud.

II.5.3 Progress in two important initiatives

In June, the Council reached an agreement in two important initiatives related to the Capital Markets Union, namely ***the cross-border distribution of investment funds*** and ***PEPPs[57].*** Therefore the Council Presidency can now start a trialogue with the Parliament and the Commission on these topics.
The investment fund package continues to eliminate the hurdles to cross-border investments by improving the transparency of supervisory fees and harmonising national practices. The PEPP proposal provides more options for consumers regarding their pension savings. PEPP savers can enjoy the benefits of moving across the EU, the transparency of costs and the chance to switch between service providers.

II. 5.4 The Presidency's working documents on the reform of ESAs[58]

On 20 September 2017, the European Commission proposed a ***reform of the European supervisory structure to create a stronger and more integrated European financial supervision*** for the Capital Markets Union. In connection with the proposal, the Bulgarian Presidency published working documents in May on the ESAs' duties and powers; ESA governance; the direct supervisory role of the ESMA[59], and it proposed an amendment to the regulation on European Union macro-prudential oversight of the financial system and establishing the ESRB[60].

II.6 The European Banking Federation's SME seminar

On 7 June, the European Banking Federation held a workshop on SME financing. The SME sector is the backbone of the European economy. 98% of the companies in the euro area are SMEs, employing three-quarters of workers and creating around 60% of the value added. The banking sector plays an important role in SME financing, and it has a responsibility to improve the conditions of SME lending and remove any obstacles. In view of this, the EBF signed an agreement in 2017***, to provide feedback to SMEs when their loans are declined.***
At the seminar held on the first anniversary of the signing of this important agreement, the representatives of the banking and SME sectors reviewed the implementation of the agreement across Europe, best practices and the objectives of future progress. The alternative sources of finance besides SME lending were highlighted, and the special needs of high-growth firms were also discussed.

II.7 Relevant EBA's and ESAs' documents in Q2

Consultation papers
Consultation paper on Guidelines regarding the exposures to be associated with high risk (EBA/CP/2018/03)
Consultation paper on Draft Guidelines on the STS criteria for non-ABCP securitisation (EBA/CP/2018/05)
Consultation paper on Guidelines on disclosure of non-performing and forborne exposures (EBA/CP/2018/06)
Consultation paper on amendments to joint EMIR standards (JC/2018/15)
Consultation paper on Draft Regulatory Technical Standards on the specification of the nature, severity and duration of an economic downturn (EBA/CP/2018/07)

[57] pan-European personal pension product
[58] European supervisory authorities
[59] European Securities and Markets Authority
[60] European Systemic Risk Board

Consultation paper on Guidelines for the estimation of LGD appropriate for an economic downturn ('Downturn LGD estimation') (EBA/CP/2018/08)
Consultation paper on Draft Guidelines on the conditions to be met to benefit from an exemption from contingency measures under Article 33(6) of Regulation (EU) 2018/389 (RTS on SCA & CSC) (EBA/CP/2018/09)
Consultation paper on Draft Regulatory Technical Standards on the conditions to allow institutions to calculate KIRB in accordance with the purchased receivables approach (EBA/CP/2018/10)
Consultation paper on Guidelines on outsourcing (EBA/CP/2018/11)
ESAs Consultation paper on amendments to the EMIR clearing obligation under the securitisation regulation

Regulatory and implementing technical standards
Draft implementing standards on the provision of information for the purpose of resolution plans under Article 11(3) of Directive 2014/59/EU (EBA/ITS/2018/02)
Final amended technical standards on supervisory disclosure (EBA/ITS/2018/03)

Opinions
EBA and ESMA statement on retail holding of bail-inable debt (EBA/OP/2018/03)
Opinion on the implementation of the RTS on strong customer authentication and common and secure communication (EBA/OP/2018/04)
Opinion on Brexit preparation(EBA/OP/2018/05)

Recommendations
Updated recommendation on the equivalence of third country confidentiality regimes (EBA/REC/2018/01)

Reports and other documents
Risk Dashboard Data as of Q4 2017
Exposures to Real Estate activities and Construction
Benchmarking of remuneration practices at the European Union level and data on high earners
Updated list of correlated currencies
Joint Committee report on risks and vulnerabilities in the EU financial system
Report on 2016 CVA risk monitoring exercise
Updated list of O-SIIs in the EU
Updated data on Deposit Guarantee Schemes across the EU
Revised list of ITS validation rules
2017 Annual Report
Updated online Interactive Single Rulebook and Q&A tool with the inclusion of the Payment Services Directive (PSD2)
Updated guides on supervisory data
Updated ITS package for 2019 benchmarking exercise