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Board of Supervisors

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# Board of Supervisors 17 October 2023 – Minutes

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## Agenda item 1: Welcome, approval of the agenda and Declaration of conflict of interest

1. The Chairperson welcomed the Members of the Board of Supervisors (BoS) at the EBA premises in Paris.
2. The Chairperson asked the BoS whether there were any comments on the draft agenda. He informed that based on a request by one Member, there would be discussion under the AOB item on the Peer Review Report on mortgage borrowers which was recently approved by the BoS. There were no comments on the agenda.
3. The Chairperson reminded the Members of the conflict of interest policy requirements and asked them whether any of them considered themselves as being in a conflict. One Member declared a conflict of interest regarding the AOB item. The Chairperson considered himself in conflict regarding item 6 on the Extension of the EBA Chairperson term of office and informed that he would step out from the meeting and the meeting would be chaired by the EBA Vice-Chairperson.
4. Finally, the Chairperson informed the BoS that the Minutes of the BoS meeting on 12 September 2023 were approved by the BoS in a written procedure.

### Conclusion

5. The BoS approved the agenda of the meeting by consensus.

## Agenda item 2: Update from the EBA Chairperson and the Executive Director

6. The Chairperson updated the Members on four items.
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7. Firstly, the Chairperson mentioned that at the beginning of October, he joined upon invitation the SSM Supervisory Board Retreat hosted by Banca d'Italia in Rome. The main topics discussed included implementation and the way forward on the SREP process and he presented the EBA priorities to the SSM Supervisory Board.
8. Secondly, the Chairperson informed about the Joint ESAs Consumer Protection Day which took place on 09 October 2023 in Madrid. It was the 10th anniversary edition of this annual event and there were three panels, on (i) the cross-selling of financial products, (ii) the regulation of crypto assets, and (iii) greenwashing. Around 300 representatives from the industry, consumer associations, competent authorities (CAs), and academics attended the event, and there were many more tuning into the online stream. The interactions were very lively and the ESAs received some useful ideas how to progress the work.
9. Thirdly, the Chairperson noted that the Annual ECON hearing was to take place on 23 October in Brussels. As current JC chair, he was also invited to expand on the JC work. Alongside the ECON hearing, the EBA was planning to meet several key MEPs.
10. Fourthly, the Chairperson reminded the Members that in 2021, the ESAs amended the OTC framework to temporarily suspend - until January 4, 2024 - the obligation to exchange initial and variation margins for equity and index options. Given that the ESAs had to repeatedly extend the transitional exemption, on 23 June 2023 the ESA directly asked the co-legislators for their opinion on the future of this exemption. Furthermore, this issue has been part of the EMIR 3 discussion by co-legislators, and the proposal to exempt the Equity options permanently seemed to be noncontroversial, nonetheless the finalization of EMIR 3 is still open. The industry has very recently reached out to the ESAs in order to ask for a bridge solution from the expiry of the exemption provided by the amending RTS until the the possible adoption of the EMIR 3. Therefore, the ESAs should ensure alignment among EU legislative bodies on this aspect. To that end, the ESAs staff have been working to find a solution in order to provide the clarity asked by the industry while minimizing any interference with the legislative process. The BoS would be further updated on this issue.
11. The Executive Director updated on four items.
12. Firstly, the Executive Director informed that the EBA has been actively preparing on the Single Programming Document. The first draft would be tabled for the November Management Board meeting followed by a discussion during the next BoS conference call in December 2023. He mentioned that all EBA managers have been involved in the preparatory work and that the mostly discussed issue was resources.
13. Secondly, the Executive Director referred to the high-level working groups on DORA and the coordination group under MICA and said that the EBA would launch calls for candidates for these groups after the BoS meeting.

14. Thirdly, the Executive Director informed about his participation to the BCBS meetings and main topics discussed, such as the results of the stress test, climate disclosure, sovereign risks and global stress test exercise.
15. Finally, the Executive Director mentioned that he was joining the EU delegation led by DG-FISMA at the first EU-UK dialogue since Brexit.
16. One Member asked for further details on the EU-UK dialogue given its importance and suggested that the EBA could regularly update the BoS in this regard. The Executive Director said that two dialogues per year were planned and that the BoS would be informed about the discussions.

### Agenda item 3: Risks and vulnerabilities in the EU

17. The EBA Head of Risk Analysis and Stress Testing Unit (RAST) updated the BoS on the latest developments in the EU related to risks and vulnerabilities. The European Commission (EC) revised downwards its 2023 and 2024 GDP growth projections for EU as macroeconomic uncertainty remained elevated, despite a solid labour market and easing inflation. At the same time, the China economic projections were further revised downwards, also due to distress in the property sector. In this regard, he mentioned that regardless of limited exposure towards Chinese counterparties, spillover effects could still be material given the importance of Chinese economy to the global economy dynamics. The Head of RAST briefly referred to the escalation of the conflict in Middle East and said that direct exposures were limited towards Israel and Middle Eastern counterparties. He also noted that as an initial reaction, there was a flight to safety. In the case of more globalised conflict, there might be impact on the European economy through higher commodity prices and disruptions in supply chains. He also stressed the importance of due diligence measures to mitigate any potential misuse of banking services and transactions, in particular in relation to transfers in crypto-assets. The Head of RAST mentioned that return on equity (RoE) was at the highest level reported. Higher profits were mainly driven by an increase in net interest income and widening margins. Asset quality remained robust and NPL ratio and the share of stage 2 loans remained stable in the period. EU weighted average CET1 fully loaded was at the highest level reported by EU banks. He noted that, comparing to the past, deposits have been only slowly repricing with and stressed the different supply and demand side effects that could be driving such repricing. The Head of RAST concluded by summarising the EBA observations on the asset exposures of EU banks towards the non-bank financial sector. EU banks exposures towards non-bank financial sector amounted to 7% of total assets as of Q1 2023. He also noted that banks' main funding sources from non-banks were repos and unsecured wholesale funding and that non-bank financial intermediaries held more than 80% of the outstanding amounts of debt securities issued by EU banks.
18. A presentation by the ECB Banking Supervision representative followed. In his presentation, he focused on lessons learnt from recent cases of banks' failures and implications for banks' liquidity risk. Firstly, he briefly summarised current market situation and noted that liquidity

and funding situation of significant institutions (SIs) reflected in regulatory metrics was generally stable. Even after the TLTRO repayments in June, most banks kept solid coverage ratios in Q2 2023 to face uninsured deposit outflows. Liquidity coverage periods of SIs based on their maturity ladders have on average increased since March 2023. He stressed that Euro area SIs did not share the same vulnerabilities as the recently failed banks in the US. However, the recent developments illustrated that market funding could become constrained during stress and banks might be reluctant to tap the market, even where they were not directly impacted by the relevant stress/trigger event. The ECB Banking Supervision representative also noted that banks and market analysts expected intensification of competition for deposits in 2024 and acceleration of pass-through to clients with gradual increase in deposit betas. Banks' funding was still heavily reliant on non-maturing deposits. He mentioned that the ECB was closely monitoring banks assumptions on deposits and their stability. The ECB banking supervision representative continued by noting that the new macroeconomic environment together with other market trends would have a long-lasting impact on funding, ultimately affecting profitability and capital. Therefore, supervisors needed to be ahead of the curve and checked if banks had a well-diversified and sustainable funding strategy, consistent with their business model, good communication strategy, proactively monitor potential challenges stemming from adverse scenarios, and if they were aware of their perception in the social media. To address this, he said that the activation of more frequent liquidity monitoring was crucial. The ECB has launched weekly liquidity reporting to assess in a timely and systematic way changes in the stickiness of deposits and to detect structural breaks across the system. He concluded by saying that the ECB would contribute to the development of the revised liquidity reporting framework of the EBA with the experiences from the weekly collection of liquidity information.

19. Members provided updates on their national developments. Several Members raised concerns regarding geopolitical situation. Some Members informed about potential introduction of a windfall tax within their jurisdiction. In general, the Members agreed on the good profitability of the banking sector at the moment. On deposit remuneration, Members agreed with the analysis of the EBA. They also mentioned that there was a very low appetite by customers to change bank or explore different banking products. With regard to emerging credit risk, some Members confirmed that the risk has not materialized yet. However, other Members confirmed that there were some signs of credit deterioration, particularly in commercial real estate. On possible risks stemming from direct or indirect exposures towards non-bank financial institutions (NBFIs), the majority of the Members did not identify any significant risks. One Member stressed reputational risks related to the issue. One Member said that their market was concentrated but they did not have significant concerns.
20. The ESRB representative informed that expected deterioration in credit quality was discussed by the ESRB General Board. She also suggested that the EBA could further analyse modeling of non-maturing deposits.
21. The ECB Banking supervision representative added that the NPLs were low but that the ECB still had some concerns related to commercial real estate and refinancing in the next two years

as well as regarding exposures of the EU banks to the US. With regard to NBFIs, he said that the ECB was asking the banks to stress test their counterparts.

22. The Chairperson concluded by noting the comments by the Members and said that while the market was showing high profitability and relatively slow changes in relation to deposits, there were various factors, including geopolitical context, which would to be considered and further monitored by the EBA.

## Agenda item 4: Update on the Fit for 55 climate risk scenario analysis (one-off exercise) and presentation of the scenarios

23. The Chairperson introduced the item by reminded the Members of the one-off climate risk exercise and thanked the ESRB and ECB for their productive collaboration on the preparation of the narrative for the scenarios and in the scope of the banking sector module of the Fit-for-55 climate scenario analysis exercise.
24. The EBA Senior Bank Sector Analyst continued by providing an update on the preparation of the exercise. He informed that at the end of September, the EBA hosted a public hearing to discuss the package of the data collection with more than 300 participants and that the EBA was addressing the feedback received on the draft templates and template guidance shared with the public. The main issues raised by the industry included a request for pre-filling of the climate related information which were the same for all the banks; highlighting challenges in providing emissions, energy consumption data and emission targets at counterparty and at aggregate level as well as clarifying the treatment of disposed entities as of 31st December 2022. The EBA and ECB agreed for the EBA to centralise the process of data collection and receive data from the banks. The EBA was planning to launch the data collection on 01 December 2023 with three envisaged submission dates. The collection should be finalized by mid-March 2024. The data collection would be accompanied by an FAQ process which would also be centralized by the EBA. Following the approval by the BoS, the EBA would share the data with the ECB for the purpose of running their top-down model.
25. A presentation by the ESRB representative and the Chair of the Task force on Stress testing (TFST) followed. In his presentation, the Chair of the TFST focused on the narrative and the methodology for developing the scenarios, based on a note that was approved at the last ESRB General Board. He reminded the Members that as part of the EC's Sustainable Finance package, the ESAs have been invited to conduct, together with the ECB and ESRB, a one-off "fit-for-55" (FF55) stress test exercise to test how the agreed transition policies would affect the financial sector (also accounting for cross-sectoral spillover effects) and, in turn, the real economy. For the purpose of the exercise, the ESRB developed three scenarios - (i) in the baseline scenario, the FF55 package was implemented in an economic environment that reflected current forecasts; (ii) the first adverse scenario focused on short-term climate-change-related risks that could materialise in the form of asset price corrections triggered by a sudden reassessment of transition risk, "Run-on-brown" (RoB); and (iii) a second adverse scenario combined climate-change related risks with other stress factors, consistent with the

adverse scenario used in the 2023 EBA stress test. He further presented implementation steps and transmission mechanism applicable for the Run-on-brown scenario and concluded by listing main open points for discussion, including data sources and features, methodology, scenario elements, consistency and finalization of the scenarios.

26. The Members supported the work. One Member stressed the importance of transparency and while acknowledging the on-going work on the scenarios, asked for full transparency on them. Other Member noted that the drafted methodology was very complex and that further technical discussions were necessary. One Member questioned why more scenarios had been presented at the ESRB General Board meeting compared to the tabled proposal. Several Members questioned how various assumptions would be addressed in the final scenario. One Member asked why there was no role for the real estate industry in the Run-on-Brown and why changes to carbon emissions were not considered in the second adverse scenario. Another Member highlighted the fact that there would be only hypothetical data at the beginning of the exercise and asked how this would be addressed. In addition, other Member reminded that data quality was one of the issues in the ECB climate test and questioned whether data quality checks were planned for this exercise. He also mentioned that similar exercises should be done in the future and therefore, this exercise should be used as a learning exercise.
27. The ECB representative clarified that the EC request was very innovative, new and challenging to model and therefore, the experts were involved in very detailed and technical discussions when preparing the scenarios. He also mentioned that, given resource constraints and the complexity of the task, the ECB would not be able to estimate cross sectoral spillovers as indicated in the EC mandate. He stressed that this might be replaced with an estimate on second round effects on the economy. However, the ECB was still looking at how this could be done in the context of this exercise, i.e., how to set up this mechanism covering all three sectors.
28. The EBA Chairperson asked about interlinkages in the model to calibrate the scenario between the financial sector and its role on the Run-on-Brown and whether the scenario would focus not only on the credit risk but also other risks.
29. In his response, the Chair of the TFST confirmed that the scenario would cover not only credit, but also market risk and that it reflected on the financial sector. He said that shocks on real estate might follow in the next vintage. With regard to the transparency, he reminded the Members of the narrative for the Run-on-Brown.
30. The EBA Analyst clarified that the EBA was closely liaising with the ECB on development of data quality checks.
31. The Chairperson concluded by noting the Members' comments and stressed that the work on the banking sector module of this exercise was progressing well and that the EBA would continue its preparatory work on the Fit for 55 climate risk exercise.

## Agenda item 5: Draft Report on green loans and mortgages

32. The Chairperson reminded the Members that the EBA received a call for advice from the EC on green loans and mortgages in November 2022 with a deadline to reply before 29 December 2023. This request was part of the EC's Strategy on Financing the Transition to a Sustainable Economy. The tabled draft report was the EBA's response to the call for advice and it provided an overview of existing market practices and policy recommendations to harmonise and support the markets for green loans. The final draft response would be sent to the BoS for approval in December.
  
33. The EBA Senior Policy Expert continued by clarifying that the EC's call for advice was built around four elements - overview of existing market practices; design of a voluntary green loan definition based on the Taxonomy; measures to encourage and facilitate the uptake of green loans while ensuring the protection of retail borrowers, and green loan origination process. The request to the EBA was based on and complemented the ongoing work on the foundations of the EU sustainability finance framework, in particular under the EU Taxonomy Regulation and other related sustainable finance policies and tools such as the European Green Bonds Standard proposal. The EBA's advice was expected to allow the EC to consider measures to encourage the development of the green loans and mortgages market. The Senior Expert informed that in order to provide evidence-based advice to the EC and in line with the request, the EBA finalised an industry survey (February - May 2023). Eighty-three banks from 27 countries covering 52% of total assets in the EEA banking sector voluntarily participated in the survey. The EBA also organised a workshop with the participating banks and continued its dialogue with the industry in bilateral meetings. Finally, the EBA launched a qualitative online questionnaire to collect information from the same participating banks on the costs and benefits of originating and monitoring green loans, and potential costs and benefits of these activities under a harmonised voluntary labelling system. The questionnaire was available until 20 October 2023. Based on the collected feedback, the EBA drafted several short-term and medium to long-term policy recommendations in response to the call for advice and the Senior Expert briefly summarised them. He mentioned that in the short-term, the EBA identified a need to introduce a voluntary EU definition for green loans based on the EU Taxonomy and current market practices. In the medium-term to long-term, the EBA was of the view that a legislative proposal to introduce a voluntary EU label for green loans that would encompass both the definition of green loans based on the EU Taxonomy and related process requirements, similarly to the one proposed for green bonds under the EU green bond standard would be beneficial. Also, such labelling framework could follow a tiered approach differentiating between green loans that were fully aligned with the EU Taxonomy and those that still contributed to at least one of the environmental objectives of the EU Taxonomy and did not significantly harm the other objectives without being fully in line with the EU Taxonomy technical screening criteria. He concluded by noting that the EBA would further interact with experts at the technical level, mentioning the ongoing written procedure, as well as the relevant standing committees to finalise the draft response to the EC's call for advice by December 2023 and submit it to the BoS for approval later in December.



34. The Members broadly supported the work and the recommendations presented. One Member welcomed the work and stressed that green loans and mortgages were key aspects in decarbonisation of the economy. She supported the tiered approach but referred to greenwashing risk in the proposed framework for example for general-purpose lending. Hence, the Member supported tiered approach with appropriate safeguards to avoid such risks. This argument echoed by some other Members. One Member also supported the report but expressed concern with a possible deviation from the Taxonomy, which may lead to a low level of comparability across banks. Some other Members supported the proposed transition terminology and the tiered approach as well as future legislative proposals on the issue. One Member raised concerns related to the consistency of the terminology, in particular during the transitional period. Another Member asked for inclusion of potential negative aspects of the discussed proposal on the green loan label in the final report. Also, one Member supporting the work mentioned that one option could cover both guidelines on green lending and then a legislative proposal.
35. The EC representative welcomed the progress of the work but raised concerns regarding the use of different shades of green. He asked for further consideration given the Taxonomy and suggested to further analyse the use of specific transition labels in line with the Commission Recommendation or of a simplified approach for specific entities. He also mentioned that the EC would send written comments after the meeting, responding to the ongoing written procedure under the subgroup.
36. The ECB Banking supervision representative supported the presented tiered approach.
37. In his response, the EBA Expert acknowledged the remarks and challenges of the topic. He emphasised that the report aimed to follow a pragmatic and balanced approach and introduced the terminology and tiered approach to achieve this objective. He also stressed that the EBA would further work on the draft report following the comments received before the finalisation of the report.
38. The Chairperson concluded by noting the comments raised by the Members.

## Agenda item 6: Extension of the EBA Chairperson term of office

39. The item was discussed in a restricted set up. The discussion was chaired by the EBA's Vice-Chairperson.
40. The Vice-Chairperson introduced the item by reminding the Members that the EBA Chairperson's term of office was five years, extendable once by a further five years. Given that less than nine months remained of the Chairperson's term, and he has confirmed his interest in serving a further term, the BoS needed to decide whether to propose an extension. The process for extension of the Chairperson's term has changed since the last time such extension was considered at the EBA. According to the regulation, The Council, assisted by the EC, will take the final decision on an extension of the EBA Chairperson, based on a proposal from the



BoS. In making its decision, the BoS had to assess the Chairperson's past achievements, and the EBA's future needs for the next five years. The Vice-Chairperson also mentioned that if the BoS decided to propose an extension, then there was also a second decision to consider, namely whether to propose an increase in the grade of the Chairperson. As there was no annual process for considering reclassification of senior management at the EBA, the practice of agencies was to increase the grade upon extension of the term of office. This was what the EBA had done with the previous senior management reappointments in 2016, as have the other ESAs. The practice has also been confirmed with the EC's DG HR.

41. A presentation by the Chairperson on self-assessment of his achievements and the EBA's needs for the coming five years followed.
42. The Members unanimously supported the proposal to the Council on the extension of the EBA Chairperson's term of office by a further 5 years to 30 April 2029 as well as the amendment of the EBA Chairperson's grade from AD15 to AD16 with effect from 1 May 2024, conditional upon the approval of the extension by the Council.
43. The Vice-Chairperson concluded by noting the Members' unanimous support.

### Conclusion

44. The BoS unanimously supported the proposal to the Council on the extension of the EBA Chairperson's term of office by a further 5 years to 30 April 2029.
45. The BoS unanimously supported the amendment of the EBA Chairperson's grade from AD15 to AD16 with effect from 1 May 2024, conditional upon the approval of the extension by the Council.

### Agenda item 7: EuReCA annual report 2023

46. The Chairperson introduced the item by reminding the Members that the EBA launched the first EU AML/CFT database, EuReCA in 2022. The first report on the functioning of EuReCA was discussed by the BoS during its meeting in October 2022 and the BoS asked the EBA to provide annual reports. In the last 12 months, the data in EuReCA has grown significantly as more CAs have started to report. This meant that EBA staff were able to service more 'reasoned requests' and to make relevant information available to CAs ad hoc as necessary. The EBA also detected some first trends, in particular in the area of supervision.
47. The EBA Head of AML/CFT Unit (AML) continued by acknowledging that EuReCA has not yet reached its full potential because data submitted to it remained incomplete. By 30 September 2023, 24 CAs had never submitted any information, and nine CAs had reported to it only once or twice. This hampered the EBA's ability to detect risks and trends and to respond to 'reasoned requests'. It also meant that CAs may not have access to the information they need to carry out their functions effectively, especially in a cross-border context.

48. The Members supported the work. They highlighted the importance of EuReCA and the role it could play in supporting effective supervision. One Member mentioned that it was questionable whether EuReCA can work as a proper early warning tool, as flagged during the preparatory work. Several Members asked for simplified and streamlined reporting requirements and suggested that the EBA could define criteria which the CAs could use when considering which incidents to report. They also said that EuReCA was not the only channel for the exchange of information. Other Members reminded the BoS of the draft RTS, which specified the criteria CAs should use to determine materiality of breaches or possible breaches and stressed that the benefits of EuReCA were dependent on how much the CAs feed into it. They asked the EBA to further promote EuReCA in the supervisory environment and colleges, including by summarising reported measures and analyse trends, and to introduce quarterly notification to EuReCA coordinators in the CAs. One Member informed that, at the national level, they invested a lot of time and resources and therefore, they were in a position to report often and in a great detail. One Member clarified that their limited reporting was due to legislative changes at the national level but that they would contribute in the future.
49. In her response, the Head of AML thanked members for their support and constructive suggestions. She clarified that EuReCA was a database rather than a cooperation channel. She acknowledged the burden of reporting that some Members had highlighted and explained also that this was because partly due to the lack of a common approach to obtaining and recording data in the area of AML. Going forward, as the new legal and institutional framework was implemented, greater harmonization could be expected, and this could make reporting into EuReCA (or its successor) easier.
50. The Chairperson concluded by noting the comments raised by the Members. He thanked the BoS for their support and contributions and invited them to continue reporting relevant data also next year.

## Agenda item 8: The prudential regime of crypto issuers under MICA: update and focus on the Reserve of assets

51. The Chairperson informed the Members that the third package of consultation papers on EBA regulatory products under MiCAR would be submitted to the BoS for comments via written procedure after the 17 October BoS meeting. This package comprised products which broadly defined the prudential regime applicable on own funds, liquidity/reserve assets and stress-testing of ART/EMT issuers.
52. The EBA Senior Policy Expert continued by explaining that the draft technical standards (RTS) included in the third package were crucial to mitigate some of the key risks identified including the so called 'run-risk' between the reserve assets and tokens (breaking the peg) of the issuer and the possible contagion risk to broader financial system. He said that the mandates of these RTSs were introduced at the BoS meeting in April 2023 and have been developed, as appropriate, in close cooperation with ESMA and the ECB. All draft RTS received full support at the standing committee level with the exception of still an open point with regards to

liquidity concentration. The EBA Liquidity Senior Policy Expert explained the options for the calibration of some concentration limits for deposits held by the token issuer in a credit institution. Given that this was the main link between the financial system and the crypto system, he stressed that there was a need to avoid contagion risk of stress events between the crypto and the financial system. For these purposes the calibration should incentivise the deposits to be held with the most appropriate credit institutions capable of absorbing stressed withdrawals. This was to ensure in time repayment to the token issuer while avoiding any impact to the rest of the financial system. He explained that the EBA originally considered two concentration limits – (i) Limit 1, initially proposed as 5% of the total balance sheet of any institution taking the deposits to diversify its funding by counterparty; and (ii) Limit 2, initially proposed as 20% of the issuer's reserve of assets (or 5% if the deposits are held with smaller banks) to diversify its investments. Relevant standing committee rather agreed to make the rules more stringent to avoid concentration risks. A recalibration of limit 1 from 5% to 2.5% and of limit 2 from 20% to 10% when the deposits were held with larger banks has hence been proposed to the BoS for final consideration.

53. Most of the Members supported the lower limits proposal with just a few Members preferring keeping the initial limits. One Member referred to activity concentration risks at banks which should also be considered by the EBA. Some Members also stressed the need of alignment with the work at the Basel Committee level. One Member raised the point that the issue of non-custodial wallets was expected to have been also part of the discussion at the meeting.
54. The ESRB representative supported the lower limits proposal.
55. In their response, the EBA Experts confirmed the alignment with the Basel Committee work in general.
56. The Chairperson concluded by noting the Members' support for the lower limits proposal and stressed that the prevalent aim was to ensure prudent approach. Hence the EBA would launch its consultation in the coming weeks.

## Conclusion

57. The BoS supported the change of the concentration limit 1 from 5% to 2.5% and limit 2 from 20% to 10%.
58. The BoS supported the launch of the consultation upon the third pack of regulatory products under MICAR.

## Agenda item 9: IRRBB scrutiny outcomes and next steps

59. The Chairperson introduced the discussion by noting that following the publication of the EBA regulatory products on IRRBB, the EBA communicated its scrutiny plans for IRRBB to monitor the impact on banks from further increases in policy rates, including its interaction with the management of the interest rate risk from a prudential perspective.

60. The EBA Head of Liquidity, Leverage, Loss Absorbency and Capital Unit (LILLAC) continued by saying that a series of activities aimed at monitoring the implementation of the IRRBB regulatory framework in the EU were undertaken. These activities included the analysis of the data from the QIS on IRRBB, in the first place, complemented by bilateral technical discussions on IRRBB management with EU institutions, the analysis of some disclosure reports on IRRBB of some selected banks, a series of meetings with international regulators, and the finalization of the ITS on the IRRBB supervisory reporting and its related advanced ad-hoc data collection. The activities undertaken by the EBA have highlighted that due to changes in the number of outliers for the supervisory outlier test (SOT) on net interest income (NII), complementary indicators should be developed together with analytical tools to feed supervisory needs on IRRBB assessment. To that end, the EBA developed a detailed list of actions in the short/medium and long terms. The list included a number of activities, such as closer scrutiny of limited repricing of term deposits; continued examination of the levels of the SOT NII and discussions with supervisors on their use of this indicator; continued scrutiny on Pillar 3 disclosure; analysis of the key impact metrics regarding SOT; development of analytical tools to assess the effect of relevant behavioural/repricing assumptions on the IRRBB metrics, as well as feeding into Basel discussions. The Head of LILLAC concluded by presenting the EBA's proposal for external communication in form of a heatmap containing high level preliminary observations and areas for further scrutiny together with possible additional related guidance to supervisors, such as complementary indicators and analytical tools.
61. The Members supported the work, the preliminary findings and the EBA's proposals for direction of travel. They acknowledged that the findings proved the importance of the monitoring work as well as the need to develop complementary indicators and analytical tools. Another Member underlined the need to have a clearer reference to proportionality in the workplan given that the new framework would be applied by all EU banks. He also recommended to pay particular attention to the tone of the communication of the heatmap in order to avoid unintended messages to the market (for instance by reconsidering the reference to possible regulatory changes or Pillar 2 actions). Some Members noted that the Basel Committee was also active on the topic and that the EBA should align its work with the work done at the Basel level. Some Members expressed comments on how high level or detailed the heatmap should be - roadmap concept versus heatmap one.
62. The EC representative informed the Members that the publication of the technical standards on IRRBB was planned for Q1 2024. He supported the main findings as well as the EBA's proposal for developing the heatmap. The ECB Banking supervision representative supported the work and pointed at the work under the Basel Committee which the EBA could further explore. The ESRB representative supported the work and said that the ESRB General Board recently discussed the risks identified also by the EBA.
63. The Head of LILLAC clarified that the EBA was actively contributing to the respective working groups within the Basel Committee.

64. The Chairperson concluded by noting the comments and the strong support for the preliminary findings and suggested way forward in terms of external communication. Further technical discussions would take place at working level on the concept of heatmap versus roadmap for final discussion by the BoS in December.

## Conclusion

65. The BoS approved the main findings of the scrutiny plans to date and areas of further investigation and work plan for 2024 and beyond by consensus.
66. The BoS supported the EBA's proposal to communicate on the findings externally by consensus.

## Agenda item 10: IFRS9 report

67. The Chairperson introduced the item by saying that the tabled second IFRS 9 monitoring report summarised the results of the benchmarking analysis of the "third ad-hoc exercise" focused on the high default portfolios ("HDP"). The Report complemented the observations already included in the last IFRS 9 Monitoring Report published in November 2021 and was meant to provide transparency on the practices which continue raising prudential concerns and that needed to be timely addressed by institutions.
68. The Head of LILLAC continued by summarising the EBA activities and noted that since the publication of the last IFRS 9 Monitoring Report, the EBA has worked on the extension of HDPs to the scope of supervisory benchmarking. Moreover, the exercise has focused on the backtesting frameworks developed by institutions, which was an important tool to assess the performance of ECL models and an area so far less investigated from a supervisory perspective. The benchmarking analysis have confirmed that most of the findings raised in the past exercise were still valid. The principle-based nature of the IFRS 9 Standard has provided room for heterogenous approaches which have led to variability on final ECL figures, also for HDPs. The analyses have shown that institutions have not yet addressed some of the approaches already flagged as concerning from a prudential perspective. On backtesting, the investigation performed has revealed different stages of implementation among institutions and, more generally, the need of further improvements in several aspects of the framework, including the need to ensure a more effective use the backtesting results for the periodic review of the IFRS 9 models. More details on the findings related to the significant increase in credit risk, ECL measurement and overlays, the incorporation of forward-looking information, IFRS9 PD variability and robustness and backtesting approaches were provided. The Head of LILLAC concluded by listing the next steps and said that following the approval by the BoS, the IFRS 9 monitoring report would be published on the EBA website by end October/early-November. IFRS9 benchmarking would be integrated as a module of the normal benchmarking exercise. Based on discussions at the standing committee level, an update of the existing Guidelines on ECL would be prioritised over the extension of the IFRS9 benchmarking exercise in terms of

scope/additional parameters. In addition, the EBA would continue engaging with the IASB and other stakeholders in the context of the monitoring activities on IFRS 9 implementation.

69. The Members supported the work, stressed the importance of the benchmarking exercise on IFRS9 and the need to stay engaged/continue to maintain the knowledge and expertise acquired going forward. One Member questioned the proposed update of the Guidelines on ECL considering other tasks which the EBA could consider of a higher priority. Other Members on the contrary supported the updated of the Guidelines. The ESRB representative welcomed the publication of the report and noted that the ESRB has also been working on financial stability issues.
70. The Chairperson concluded by noting the Members' support and said that the EBA would further discuss on the prioritisation of the work.

### Conclusion

71. The BoS approved the IFRS 9 monitoring report and its publication on the EBA website by consensus.

### Agenda item 11: ACP update - Election of the Co-chairperson and ECB representative

72. The Chairperson introduced the item by reminding the Members of the work done by the Advisory Committee on Proportionality (ACP). He also mentioned that the ACP was composed of two Co-Chairpersons, a senior representative from the ECB, two senior representatives from other CAs and a senior member of EBA staff. Following a number of resignations from the ACP, the EBA staff prepared an update for the BoS with next steps as well as listing applications from candidates to replace resigned members of the ACP.
73. The EBA Head of Governance and External Affairs Unit (GEA) continued by summarising the recent changes in the ACP membership. He noted that following the appointment of Mr. Helmut Ettl as the EBA Vice-Chairperson, Mr. Ettl, who was elected as the first ACP co-chairperson in 2020, stepped down from his position. In order to replace Mr. Ettl, the EBA launched on 29 September 2023 a call for candidates to the BoS and received one application from Mr. Primoz Dolenc. Regarding the ECB representative, the Head of GEA explained that following the end of first term of the ECB candidate, the ECB nominated Ms. Eleni Angelopoulou as a new ECB representative. He also mentioned that one of the CAs' senior representatives informed the EBA that he was planning to step down from his position due to other commitments. Furthermore, should the BoS elect Mr. Primoz Dolenc as the co-chairperson of the Committee, the second CAs' representative position would be vacant as well. Finally, the Head of GEA informed that the EBA has nominated a new EBA senior representative.

74. The Chairperson asked the Members to express their support for the nomination of Mr. Primoz Dolenc as the co-chairperson and Ms. Eleni Angelopoulou as the ECB representative.
75. The Members supported the two nominations without any comments.
76. The Chairperson concluded by noting the Members' support for the two nominated candidates.

### Conclusion

77. The BoS approved Mr. Primoz Dolenc as a Co-Chairperson of the Advisory Committee on Proportionality as of 18 October 2023 for a period of three years by consensus.
78. The BoS approved Ms. Eleni Angelopoulou as the ECB senior representative in the Advisory Committee on Proportionality as of 18 October 2023 for a period of three years by consensus.

### Agenda item 12: AOB

79. The Chairperson reminded the Members that the Report on the peer review on supervision of creditors' treatment of mortgage borrowers in arrears was approved by the BoS on 29 September 2023. Further to the outcome email, one of the seven reviewed CAs approached the EBA raising concerns that the publication of the report would hinder the country's financial stability. The Chairperson explained that according to the Article 35(1) of the EBA Decision on the peer review methodology, where a CA that was subject to the peer review was concerned that the publication of the reasoned main findings would pose a risk to the stability of the financial system, it could refer the matter to the BoS and the BoS may decide not to publish "those extracts". He also noted that the issue has been raised for the first time at a very late stage of the process.
80. A BoS Member representing the reviewed CA presented their concerns. Afterwards, the Member stepped down from the meeting and the remaining Members discussed the issue without the presence of the Member.
81. The views of the Members were mixed. The Members agreed that the issue deserved proper analysis and further discussion. The Members requested that EBA staff provide an analysis of any potential threat to the financial stability if the peer review report would be published as planned.
82. The Chairperson concluded by noting the views of the Members, requesting the EBA staff to provide such analysis and by indicating that the EBA would organize an ad hoc BoS conference call in the coming days to discuss the issue.



## Participants of the Board of Supervisors' meeting on 17 October 2023<sup>1</sup>

**Chairperson:** Jose Manuel Campa

**Vice-Chairperson:** Helmut Ettl

<u>Country</u>	<u>Voting Member/High-Level Alternate</u>	<u>National/Central Bank</u>
1. Austria	Helmut Ettl	Karin Turner-Hrdlicka
2. Belgium	Jo Swyngedouw/Kurt Van Raemdonck	
3. Bulgaria	Stoyan Manolov	
4. Croatia	Sanja Petrinic Turkovic	
5. Cyprus	Constantinos Trikoupis	
6. Czech Republic	Marcela Gronychova	
7. Denmark	Thomas W Andersen	
8. Estonia	Andres Kurgpold	Timo Kosenko
9. Finland	Marko Myller	
10. France	Nathalie Aufauvre	
11. Germany	Peter Lutz	Karen Braun-Munzinger
12. Greece	Heather Gibson	
13. Hungary	Csaba Kandracs/Laszlo Vastag	
14. Ireland	Gerry Cross	
15. Italy	Andrea Pilati/Francesco Cannata	
16. Latvia	Kristine Cernaja-Mezmale	
17. Lithuania	Simonas Krepsta	
18. Luxembourg	Nele Mayer	Christian Friedrich
19. Malta	Anabel Armeni Cauchi	Oliver Bonello
20. Netherlands	Willemieke van Gorkum	
21. Poland	Kamil Liberadzki	Pawel Gasiorowski
22. Portugal	Rui Pinto/Jose Rosas	
23. Romania	Catalin Davidescu	
24. Slovakia	Tatiana Dubinova	
25. Slovenia	Primoz Dolenc/Damjana Iglic	
26. Spain	Agustin Perez Gasco	
27. Sweden	Magnus Eriksson	David Forsman
<b><u>EFTA Countries</u></b>		
	<b><u>Member</u></b>	
1. Iceland	Bjork Sigurgísladóttir	
2. Liechtenstein	Markus Meier	
3. Norway	Per Mathis Kongsrud	Ylva Soevik

### Observer

- SRB

### Representative

<sup>1</sup> Pascal Hartmann (FMA); Eida Mullins (Central Bank of Ireland); Nina Rajtar (KNF); Marek Sokol (CNB); Matthias Aust (BaFin); Laura Clausen (Danish FSA); Marco Giornetti (Bank of Italy); Roel Heyvaerts (DNB); Clara Du Mesnil du Buisson (EC)

**Other Non-voting Members**

1. ECB/SSM
2. European Commission
3. EIOPA
4. ESMA
5. EFTA Surveillance Authority
6. ESRB

**Representative**

Carmelo Salleo, Stefan Walter, Jeromy Henry  
Martin Merlin  
  
Natasha Cazenave  
Marta Margret Runarsdottir  
Emily Beau

**EBA**

Executive Director	Francois-Louis Michaud
Director of Economic and Risk Analysis Department	Jacob Gyntelberg
Director of Prudential Regulation and Supervisory Policy Department	Isabelle Vaillant
Director of Innovation, Conduct and Consumers Department	Marilyn Pikaro
Director of Data Analytics, Reporting and Transparency Department	Meri Rimmanen

**EBA Heads of Unit**

Philippe Allard  
Angel Monzon  
Jonathan Overett-Somnier  
Stephane Boivin  
Oleg Shmeljov  
Carolyn Gardner  
Delphine Reymondon

**EBA experts**

Tea Eger  
Margaux Morganti  
Antonio Barzachki  
Ali Erbilgic  
Fernando Pires  
Christian Moor  
Luis Del Olmo  
Raffaele Passaro  
Adrienne Coleton

For the Board of Supervisors

Done at Paris on 6 December 2023

[signed]

José Manuel Campa

EBA Chairperson