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Board of Supervisors
16 and 17 October 2024
Location: EBA premises, Paris

Board of Supervisors

Minutes of the meeting on 16 and 17 October 2024

Agenda item 1: Welcome and approval of the agenda

1. The Chairperson welcomed the Members of the Board of Supervisors (BoS). He reminded them of the conflict-of-interest policy requirements and asked them whether any of them considered themselves as being in a conflict. No Member declared a conflict of interest.

2. The Chairperson welcome Mr Ugo Bassi, the new European Commission's (EC) representative.

3. The Chairperson asked the BoS whether there were any comments on the draft agenda. There were no comments on the agenda.

4. Finally, the Chairperson reminded the BoS that the Minutes of the BoS conference call on 17 September 2024 were circulated to the BoS in a written procedure for comments. The final Minutes would be circulated to the BoS for approval after the meeting.

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 three items.

7. Firstly, the Chairperson informed the Members that in view of the establishment of the permanent EBA Crypto Asset Standing Committee (CASC) from 30 December 2024, the Mandate of the CASC would be submitted to the BoS via written procedure later in October.

8. Secondly, the Chairperson mentioned that the peer review committee which has been preparing a follow-up report on supervision of management of NPEs by credit institutions

has completed its work. Having consulted the Management Board (MB) on the report and taken into account final comments raised by competent authorities (CAs), the EBA was planning to launch the written procedure to approve the report after the BoS meeting. The conclusions of the original peer review in 2022 were already largely positive, and the committee has found that CAs have made further significant efforts to improve their supervision and (with a couple of small exceptions) the guidelines were now fully or largely applied. He stressed that while the supervisors needed to remain vigilant towards developments in credit quality and address early growth of NPEs, particularly given recent increases of the share of NPLs across all segments and banks' own expectations for further growth of NPLs for households and corporates in 2024, the report was a vindication of the commitment of this BoS, and the huge effort by CAs and the EBA to tackle this issue. During the MB conference call in September, the MB Members were of the view there was a need to promote these findings and recognise this achievement, both in the communications around the report itself and more widely, in relevant interviews/speeches.

9. Thirdly, the Chairperson announced that the Joint Bank Reporting Committee (JBRC) has been set up and the first meeting already took place at end May 2024. As a reminder, this is a forum for collaboration between European and national authorities on reporting topics. The JBRC would cooperate with the industry through the so-called Reporting Contact Group, where 22 members would be selected from 42 nominations that the EBA received. The group should have its first meeting in November and one of its main tasks, achieving semantic integration, would progress soon. An expert group on semantic integration with about 15 experts from different authorities has been set up and would have its first drafting session in a physical meeting on 14 November in Frankfurt. The expert group was planning to build on the roadmap and methodology for semantic integration developed by a group of experts coordinated by the ECB and the EBA. Finally on the granularity side, which was put on hold due to resources constraints, the EBA has been considering granular reporting in some of the reporting requirements and the outcome of this work should serve as a pilot for this topic.

10. The Chairperson informed the Members about several meetings he attended and mentioned that on 14 October 2024, the annual ECON hearing took place. It was the first hearing with the new EP. In addition, it was an opportunity to meet bilaterally with five MEPs. The main topics for discussion were next steps on the European Savings and Investment Union, including CMDI and securitisation, Basel III implementation, DORA as well as burden of regulatory compliance. The Chairperson also attended the EFC meeting in Portugal and presented on the topic of competitiveness of the European banking sector, and the ESRB Steering Committee and General Board.

11. Finally, the Chairperson referred to the annual Joint ESAs' Consumer Protection Day and thanked Hungarian colleagues for excellent cooperation and preparation of the event. He said that more than 300 participants attended on site, of which approx. 120 representatives were from CAs, 110 from the industry and a record number of 27 consumer organisations attended, too.

12. The Executive Director updated the Members on three items.

13. Firstly, he informed that DORA preparations continued very actively but the submission date for financial entities' registers of information may need to be slightly later than initially envisaged as a result of the EC's ITS rejection aiming to allow use of EUID as well as LEI, possibly end-April as opposed to by the first quarter as initially envisaged.

14. Secondly, the Executive Director referred to a number of high-level external meetings he attended since last BoS and mentioned the Council's Financial Services Committee which has been actively working on a contribution to the Eurogroup's statement on CMU, focussing on sustainable finance, an area where EBA's recent work (green bonds, greenwashing, securitisation) has been valued, and the BCBS that met for the first time under its new chair, the Governor of the Riksbank, and has been in particular discussing the adequacy of the liquidity metrics and requirements in the light of recent market developments.

15. Thirdly, the Executive Director focused on the EBA's organisation aspects and said that the EBA received an informal notice from EC that the automatic salary and pension indexation as a result of Eurostat's data would be published by end-October and that it could increase expenses up to 1.12% which would result in a tight situation but may not require to revise the budget. He also mentioned that the EBA has been planning to further expand its arrangements for personnel exchanges with other institutions from 5 in 2024 to 10 in 2025 (including other EU agencies and competent authorities) and would be happy for considering even more such arrangements with competent authorities. He concluded by inviting the Members to attend or designate staff to the 3rd annual virtual ESA conference on gender equality on 15 November 2024 which was lining up outstanding speakers to discuss the economic benefits and challenges of gender equality in Europe and the rest of the world.

16. The EC representative updated the Members on the scrutiny period for the Delegated Act on the postponement of the FRTB framework and invited the Members to contribute to the consultation on securitisation launched by the EC with a deadline on 04 December 2024.

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. He covered a number of specific findings which would be included in the upcoming risk assessment report. On market volatility, which was not least linked to the market upheaval beginning of August, for instance, or the upcoming US elections, the Head of RAST noted that volatility has remained elevated since July and may remain elevated in the future. With regards to vulnerabilities in the banking sector due to geopolitical risks, the Head of RAST said that these risks could result in heightened credit risk associated with exposures to counterparties located in countries experiencing increased geopolitical risks or indirectly

in sectors affected by these risks. Direct exposures to counterparties domiciled in geopolitically high-risk countries exceeded EUR 500 billion, representing almost 2% of the total assets of EU/EEA banks. He noted that there were other indirect effects on banks caused by geopolitical risks. The Head of RAST then continued by referring to trends in lending and said that commercial real estate (CRE) loans increased for instance by 1.9% year-on-year, driven mainly by support to existing customers rather than new lending. The latest Autumn 2024 RAQ data revealed that banks in the EU/EEA have been heavily investing in the office and multifamily sectors, while their investments in the retail sector, including shopping centers, were comparatively smaller. Banks in Northern and Western European regions were primarily exposed to office and multifamily properties, whereas banks in Southern region reported a higher share of CRE related loans towards retail properties. With regard to non-performing loans (NPLs), the Head of RAST informed that by June 2024, banks in the EU/EEA reported EUR 373 billion in non-performing loans (NPLs), accounting for 1.86% of their total loans and advances, marking an increase of over EUR 12 billion from June 2023. The increase was mostly driven by non-financial corporate exposures and certain sectors depicted heightened credit risk as indicated by not only supervisory data but bankruptcy declarations too. On the profitability of banks, the Head of RAST said that the EU banks' return on equity (RoE) rose significantly in recent years, currently at 11%, mainly driven by rising net interest income in recent years. However, around 66% of EU banks estimated their cost of equity (CoE) at more than 10%, indicating that RoE was still widely below their CoE. The EU banks' CET1 headroom above overall capital requirements (OCR) and Pillar 2 Guidance (P2G) reached around 460 basis points as of Q2 2024. The liquidity coverage ratio (LCR) reached 163.2% in Q2 2024, and the net stable funding ratio (NSFR) continued its rising trend, up by 50 basis points quarter-on-quarter to 127.8% in Q2. Banks' access to market-based funding has been characterised by elevated volatility in 2024, with several windows of hardly any primary market activity. The Head of RAST then presented key differences and drivers of profitability between the EU and US banks. He said that the EU banks' profitability lagged most of the time behind their US peers, driven by higher revenues (NII with higher NIMs etc.). There were presumably many reasons for US banks' higher revenues, including e.g. diversification of income, asset mix, asset quality, macroeconomic environment or market structure. He concluded his presentation by noting that transaction volumes and numbers of banking M&A were at rather low levels. Around half of the banks are considering an M&A transaction, including domestic ones or at EEA level. Finally, he mentioned that around one-third of EU banks' administrative expenses have been spent on information and communication technology (ICT), with a focus on increasing automation and digitalisation to reduce operating costs.

18. A presentation by the Dutch BoS Member followed. In his presentation, he provided an overview of the Dutch banking sector saying that the profitability was high, capital and liquidity ratios were solid and the first signs of stabilization of the CRE market has been observed. Related to interest rate risk he noted that Dutch banks had a relatively high share of loans with prepayment options, in particular due to the high share of mortgages and non-maturing deposits subject to withdrawal risk. This meant that they have high exposure to

customer behaviour and were as such subject to elevated modelling risk. On geopolitical risks, he said that Dutch banks had minimal direct lending exposure to high-risk regions. However, Dutch banks remained notably vulnerable due to indirect exposure through the supply chains of companies they invest in or lend to. The discussion concluded by highlighting the vulnerability that came with reliance on third-party IT providers and vital services like telecommunication, underscoring the importance of DORA to manage ICT and cyber risks in the outsourcing chain.

19. A presentation by the Polish BoS Member followed. In this presentation, he focused on ESG physical risk caused by the 2024 flood disaster in Poland and highlighted economic consequences referring to credit losses, increased exposure to government bonds, higher credit demand for reconstruction and operational disruptions. He also presented a national proposal for a non-legislative moratorium on loan repayments and raised the possibility that the EBA could reactivate its GLs on generalized moratoria that were issued during the COVID pandemic.

20. In the following discussion, Members provided an update on their national developments. One Member informed about ongoing legal cases related to variable rate mortgages and another Member noted that there was already a ruling of the European Court of Justice on a similar issue. Another Member noted that at the national level, they observed market contradictions – shrinking economy on one hand while the banking sector was performing very well. On the impacts of geopolitical risks, the Members referred to the ongoing wars and conflicts and said that operational and cyber risks should be particularly considered under the geopolitical risks. One Member was of the view that in analysing these risks, there should be a differentiation between banks exposed to various risks and different countries. Other Member said that their banks' exposure was very limited but stressed economic dependencies on China and potential impact of further conflicts in Asia. Few Members mentioned increased number of cyber-attacks and one Member updated on the ongoing targeted attack on one bank operating in several countries. In this regard, some Members raised expectations towards DORA requirements which should address some of the cyber risks' elements. One Member said that the monitoring of geopolitical risks should be structurally embedded in banks' procedures. Other Members noted that the geopolitical risks, sanctions and cross-border links had for instance an impact on the increase market volatility, fragile market confidence and therefore, should be incorporated in banks' risk appetite and risk management framework. With regards to valuation of banks' real estate collateral, several Members confirmed increased frequency of revaluations by their banks. On US banks' higher profitability, Members noted that business models and product mix of US banks based on loans and securitised mortgages, more flexible regulatory regime, different profitability models, size of institutions and fiscal support were among the main drivers. On the presentations by the BoS Members, one Member asked whether there are any pre-conditions to be met before allowing borrowers to make early repayments in cases of fixed rate mortgages in the Netherlands. Also, there was another question, what an

annulation of a mortgage contract through a court ruling would in practice imply for the bank and the borrower.

21. The ECB representative noted that geopolitical risks were also stemming from the sanctions. On the valuation of real estate collateral, she informed that they have observed increased frequency in which the banks receive valuations of real estate collaterals. She also said that the different structure of the market was one of the drivers of higher equity valuations in the US banking sector.

22. The NL BoS Member explained that normally there was no refinancing possibility for mortgages on their market, only in cases of moving houses when clients could agree with banks on different interest rates. Another BoS Member referred to the case of FX loans, which were considered null by the national courts, and this resulted in settlements between borrowers and banks.

23. The Chairperson concluded by noting the Members' comments and said that while the EBA Guidelines on moratoria addressed the Covid-19 pandemic and its impact on the banking sector successfully, the EBA was not, at this stage, considering developing by analogy any guidelines in response to national situations. Nevertheless, he stressed that the floodings in Poland were an example of physical risks and that the EBA would further focus on these risks in greater detail. Finally, he mentioned that the increased number of cyber-attacks has been raised also at the ESRB level and would be monitored by the EBA on an ongoing basis.

Agenda Item 4: 2025 EU-wide Stress test

24. The Chairperson introduced the item by explaining that the BoS was invited to discuss two topics - the proposed changes to the final 2025 stress test package following industry feedback and the final narrative for the adverse scenario including initial calibration of the shocks. He mentioned that the changes to the methodology have been mostly agreed on the subgroup level, except on the definition of loaded capital ratios and related disclosure. There were some minor changes to the sample and a new proposal on the timeline.

25. The Head of RAST continued by noting the adjustments to the process, timeline, sample, and methodology following the informal industry discussion conducted in July and August of 2024. In response to industry concerns about the timeline execution and banks' ability to ensure high-quality data submissions due to the application of CRR3, the EBA proposed adjustments to the submissions timeline, without a change to the publication date of the stress test results. Regarding the sample, there were modifications due to recent acquisitions. However, the sample size would remain at 65 banks. On the methodology, the EBA proposed a number of changes across various risk areas based on the industry feedback. The BoS input was sought in relation to the calculation of loaded capital ratios and related disclosure to ensure that the impact of the scenario on banks' capital ratios was properly isolated from the phase-in of regulatory changes. The Head of RAST explained

the two options for consideration regarding the transitional adjustments for the calculation and fully loaded capital ratios and the transparency templates. The first option (option 1) was in line with the practice followed for past stress test exercises and the draft stress test methodology published in July 2024, envisaging fully loaded capital ratios which excluded all transitional arrangements related to the phase-in of CRR3. Following industry feedback, the EBA analysed at the technical level an alternative option that would consider only the application of regulation as of the end of the scenario horizon (option 2). The Head of RAST highlighted that regardless of the option chosen, the capital depletion would remain unchanged, but the two options led to different starting point and end-point levels of the CET1 fully loaded ratios. Further, he explained two options related to disclosure on the breakdowns of the transitional arrangements– option A for full disclosure and option B for reduced disclosure. At last, the Head of RAST discussed the next steps which included publication of the package as of early November, followed by a three-week template testing period.

26. The Chairperson added that the respective communication on the EU-wide stress test should focus on clarifying that this was a risk exercise rather than a regulatory compliance exercise.

27. The Members supported the changes introduced to the proposed methodology, timeline, and sample. With regards to the options presented, the views were mixed. While some Members supported option 1 B arguing that it was an option similar to those used in previous exercises, known to the market in the context of the QIS Basel III monitoring exercise, as well as allowing comparability, noting that markets would expect this information; other Members supported option 2 A saying that the focus should be on the implementation as of the end of the scenario horizon (2027) rather than in relation to the end of CRR3 transitional horizon and on the simplification of the process for supervisors and banks. They mentioned that changing the approach in comparison to the past exercises was a possibility and noted that regardless of the option chosen the communicated capital depletion would remain unchanged, which was reassuring.

28. The EC representative praised the detailed and high-quality preparatory work done by the EBA. While stressing that the decision was ultimately a supervisory one, he considered that the application of fully loaded requirements would contrast with the willingness of co-legislators to have transitionals. He therefore insisted on the importance of a clear communication strategy.

29. The ECB Banking Supervision representative supported disclosure of capital ratios with full implementation of CRR3 with reduced disclosure (option 1B) due to its consistency with solutions in the previous exercises and market familiarity with this approach.

30. Due to diverging views, the Chairperson invited the Members to vote on their preferred option. Option 1B was considered as preferable by the majority of the voting Members.

31. A presentation by the ESRB representative on the final proposed narrative for the adverse scenario of the 2025 EU-wide stress test followed. The 2025 adverse scenario has been shaped by geopolitical risks, which were considered a major source of risk for the EU financial system. The ESRB representative explained that the scenario was characterised by several drivers and mentioned an increase in commodity prices and stock price volatility, leading to substantial negative growth risks, focusing on recent years' data rather than solely on the data from 2022; a volatile environment that could trigger disorderly adjustments in asset prices, impacting income fragilities and debt levels, particularly in real estate markets and sovereign risk premia, and shocks to credit default swaps (CDS) and sovereign bonds, reflecting concerns over fiscal fragmentation and sovereign debt levels. He also mentioned that the narrative of the scenario was distinct from the 2023 exercise and listed few specific shock calibrations which led to the scenario that was tailored to reflect current economic vulnerabilities, emphasising the role of geopolitical tensions and their impact on financial markets and the broader economy.

32. The Members supported the work on the scenario and its narrative. Some Members questioned the severity of the scenario in comparison to previous exercises. Few Members pointed out that the narrative was not reflecting latest national developments and noted that further calibrations may be necessary, also on sovereign yields. In this regard, one Member stressed that the deviation from the baseline scenario was almost the same in countries with very different situations and more idiosyncrasies were necessary in this context. Other Member was of the view that the narrative was complex, with comments on the path of inflation and interest rates.

33. The ESRB representative clarified that the technical group was planning to further assess country-by-country specificities as well as various sectors with an aim to finetune the narrative. He concluded by listing the next steps and mentioned that the updated scenario would be presented to the BoS during its next conference call in December, followed by the General Board approval in January 2025 and publication on 20 January 2025.

34. The Chairperson concluded by noting that the BoS supported option 1 B (excluding all transitionals for the computation of fully loaded ratios and reduced disclosure) as a preferred option and noted the Members' comments on the scenario for the 2025 EU-wide stress test exercise. He said that the narrative should further reflect impacts of geopolitical risks on various sectors.

Conclusion

35. The BoS approved the proposed changes to the final 2025 EU-wide stress test package (process, timeline, methodology and sample) by consensus.

36. The BoS approved the presented option 1 B by simple majority vote.

Agenda item 5: Report on the fit-for-55 one-off climate scenario analysis

37. The Chairperson introduced the item by reminding the Members of the discussion during the BoS conference call in June and said that the tabled report now included also sector-specific results from the other ESAs and the cross-sectoral results, estimated with the ECB's ISA model. He informed that subject to the BoS approval, the report would be published on 19 November 2024.

38. The EBA Senior Bank Sector Analyst (Analyst) continued by highlighting that the exercise marked a significant advancement in the field of climate stress testing, particularly in terms of its comprehensiveness and concerning the integration of interconnected features. The results provided valuable insights into key vulnerabilities, their concentration, and potential contagion effects, enabling targeted future initiatives to monitor climate-related risks. The exercise served also as a valuable learning opportunity for all institutions, requiring them to consolidate, enhance and compare the respective modelling toolkits to fulfil the mandate. He mentioned that following the BoS conference call in June, the ESAs and ECB made significant progress in drafting the joint report. In September, an advanced draft of the document was circulated to respective standing committee for comments and, in parallel, it was also shared with the EC and other ESAs steering committees. The Analyst summarized the main findings of the analysis and said that under the baseline scenario, i.e. Fit-for-55 package implemented in an economic environment that reflected current forecasts, aggregate losses over the 8-year horizon (including the instantaneous market risk shock) were relatively contained. First-round losses, i.e. without any amplification effects, stemming from a "Run-on-Brown" have a limited impact on the financial system, indicating that perceived changes in climate risks were not a source of financial stability concerns per se. Adverse macro developments could negatively impact banks by increasing their losses and limiting their capacity to finance green investments, interfering in turn with the evolving transition. Amplification could lead to further losses (up to 41% of first-round losses) if market conditions worsen liquidity stress, but the shocks did not threaten the overall safety of the financial system; most institutions were protected by strong capitalisation, high liquidity levels, and diversification. The Analyst concluded by listing the next steps and said that the joint FF55 report should be published on 19 November 2024 by the ESAs and ECB on their respective websites, together with a joint press release and FAQs and following the BoS approval written procedure. The EBA was also planning to host a joint technical background briefing with journalists.

39. The Members supported the work and highlighted the complexity and importance of the report, which should be seen as a valuable step towards further action in the area of climate-related topics. They stressed a need for careful communication on the findings and key messages from the report.

40. The ECB representative acknowledged the innovative nature of the exercise which should be reflected in the communication. She proposed to further consider if this exercise could be, in the future, incorporated in the regular EU-wise stress test.

41. The SRB representative welcomed the report and questioned how the EBA and other involved institutions could further build on the data collected and their interactions. She noted that the communication should focus on the fact that the report was covering transitional risks rather than exceptional physical risks.

42. The Chairperson concluded by noting the comments by the Members and the support for the publication of the report. He also said that the EBA would further discuss how to set up processes and governance for future exercises.

Agenda item 6: Consultation paper on draft RTS on material model changes under Article 143(5)

43. The Chairperson introduced the item by reminding the Members that CRR3 has mandated the EBA to revise the RTS on Model Change (RTS on MC) published in 2014, with an 18-month deadline after the entry in force of the amending regulation. The set of amendments proposed in the tabled consultation paper reflected a compromise package with the aim to clarify and enhance the RTS based on 10 years supervisory experience with the RTS.

44. The EBA Head of Risk-based Metrics Unit (RBM) continued by explaining that under the IRB Approach, the CRR differentiated between material extensions or changes to rating systems made by institutions, which were subject to approval of the CA, and all other extensions or changes, which were only subject to notification by the institution to the CA. Since its first adoption 10 years ago in 2014, the RTS further split the non-material changes into those that required ex-ante notifications to the CAs at least two months before their implementation (i.e. the supervisors had two months to oppose the implementation by reclassifying the model change as material in need of a specific review by them), versus changes that only had to be notified ex-post. He said that the tabled draft consultation paper provided several revised elements and mentioned updates to align to CRR 3, including removing references to IRB approach for equity exposures, and to the AMA approach, and amendments aimed to enhance the supervisory effectiveness of the approval process of model changes. This included several clarifications on the scope of the RTS; qualitative criteria related to material changes related to the Definition of Default, Validation framework, and the modelling approaches used for slotting exposures and purchased receivables; and clarifications on the calculation of the quantitative backstop criteria. The Head of RBM concluded by referring to a broader debate at the experts' level on whether the number of material changes should be reduced, given that this was linked to the use of supervisory resources needed to validate the changes. He said that various views were expressed by the experts on the optimal solution. Given that the RTS did not govern the amount of work that supervisors put into a material model change, the experts agreed that this issue should be considered in the context of the upcoming revision of the RTS on assessment methodology.

45. The Members supported the publication of the consultation paper. Some Members noted that, although they supported the publication of the CP, the revision of the RTS on material

model changes could include more elements of proportionality to allow for a more effective supervisory approval process. One Member asked for a more ambitious revision including a recalibration of the quantitative thresholds. However, other Members stressed the importance of the applications for material model changes and the information that supervisors receive through these applications. Furthermore, one Member noted the positive impact in terms of governance within the institution of the application process required for material model changes. With that, several Members highlighted the difference between on one hand the RTS on Material Model Change, which governed the application process of institutions for material model changes and notifications, and on the other hand the RTS on Assessment Methodology, which governed the supervisory review and approval processes of material model changes and notifications. Members also mentioned that these two standards already provided sufficient flexibility for the CAs to implement a flexible and risk-based approach. Most Members agreed that further work was needed related to the RTS on assessment methodology and the supervisory implementation of the technical standards to develop more flexible supervisory procedures regarding model change approvals.

46. The ECB Banking Supervision representative supported the work but noted that the proposed changes should be further considered to better address proportionality.

47. The EC representative supported the proposal for consultation as it was a good compromise between the different considerations.

48. The Chairperson concluded by noting the Members' support for the publication of the consultation paper and asked the BoS to send their written comments. He also said that, based on the consultation feedback, the EBA should further analyse the proportionality of the RTS on Material Model Changes, the interaction with the RTS on the assessment methodology to approve material model changes, and the supervisory implementation of these two standards.

Conclusion

49. The BoS supported the publication of the Consultation paper on draft RTS on material model changes under Article 143(5) CRR by consensus and following a round of written comments.

Agenda item 7: Peer review – Tax integrity and dividend arbitrage trading schemes

50. The Chairperson introduced the item by noting that the peer review report on tax integrity and dividend arbitrage has been tabled for discussion as a follow-up to the cum-ex action plan published in 2020.

51. The Head of LC continued by summarizing the main aspects of the Tax integrity peer review report. He reminded the Members that in April 2020, the EBA published an action plan on dividend arbitrage trading schemes such as Cum-Ex and Cum-Cum with an aim to enhance

the regulatory requirements applicable to such schemes within the scope of action of prudential and AML/CFT supervisors. With regard to the peer review report, the Head of LC explained that the peer review was carried out in order to assess the effectiveness and degree of supervisory convergence of issues relating to tax integrity and dividend arbitrage trading schemes and in particular of the way that supervisors check compliance by financial institutions with the requirements adopted under the action plan. The aim was not to review national systems for identifying/investigating tax fraud, nor placing expectations on CAs for doing so but rather to identify how supervisors used the information they have to consider tax integrity in their various assessments. The Head of LC said that the CAs in six Member States have been reviewed and the peer review committee's findings suggested that overall, the picture was positive with some specific areas for improvement and follow-up measures, as well as a number of best practices identified. On procedural aspects, he said that the report was discussed during the MB conference call in September and sent for comments to the targeted CAs. CAs under review provided significant amounts of comments following the version submitted to the MB, including, in some cases, new information not received earlier. The Head of LC concluded by mentioning that following the BoS meeting, the report would be sent to the BoS for approval in a written procedure.

52. The Members supported the work but raised procedural concerns related to a limited period for providing comments and therefore, asked for a second round of written comments after the meeting before the peer review report would be sent to BoS for written approval/vote. Some Member pointed at factual errors and several Members asked for a lessons learnt document to summarise experiences with peer reviews conducted in the last two years. Few Members commented on the recommendation related to building in-house knowledge and experience to address tax issues. One Member noted that the report included a number of best practices, as well as certain recommendations which were addressed to all CAs (not only to those under review) and that the structure of the report should reflect this. On the publication of the report, one Member welcomed that structure and tone of the cover note tabled for the meeting and suggested that a communication accompanying the publication of the peer review could be built on this cover note.

53. The Chairperson concluded by noting the Members' comments and stressed that the aim of the report was to further clarify that investigations of individual tax crimes was not a direct competence of the supervisors. He agreed that the lesson learnt document would be beneficial and Members should send written comments on the current report, he also said that a press release accompanying the publication of the peer review report would be shared with the BoS.

Agenda item 8: EBA's response to the EC consultation on NBFI risks

54. The Chairperson introduced the item by reminding the Members that EC launched a public, targeted consultation to identify the vulnerabilities and risks around Non-bank Financial Intermediaries (NBFIs) in summer 2024, with the consultation closing on 22 November 2024. The EBA decided to submit an EBA response to the EC's consultation, addressing 10

selected questions relevant to the EBAs' mandates, tasks, and experience. The other ESAs and the ESRB also decided to provide separate responses.

55. The EBA Head of Economic Analysis and Impact Assessment Unit (EAIA) continued by clarifying that the EBA response covered 10 selected questions in the broader areas of: (i) Monitoring interconnectedness and risks to the EU banking sector stemming from NBFI, (ii) The market of crypto-assets: Excessive leverage and systemic risks and vulnerabilities, (iii) EU system-wide stress test across NBFI and banking sectors, and (iv) Supervisory coordination and consistency at EU level. He presented the EBA's proposal for each area. With regards to interconnectedness, the EBA had analysed both quarterly sectoral accounts and supervisory data at individual institution level and observed that banks' exposures to NBFIs could be a source of vulnerability in times of turmoil. This is because the bank-NBFI nexus is closely intertwined, with NBFIs being particularly dependent on banks for funding and liquidity support and banks relying on NBFIs as a holders of their debt securities issued. As of December 2023, NBFI holdings accounted for more than a quarter of total bank-issued debt and were the destination of 22% of all short-term bank loans such as repos in the EU. Recent NBFI growth was partly due to banks optimising their business models in response to tightened regulation (e.g., CRR3/CRD6), but also reflecting financial innovation in the NBFI space. The Head of EAIA said that a high concentration of exposures to NBFIs was observed in a few countries. The five countries with the largest exposures to NBFIs represented 86.4% of the total EU/EEA banks' exposures to NBFIs. He continued with data for the crypto-assets market and stated that leverage and market volatility, as well as interconnectedness between crypto markets and traditional financial markets, and complexity and opacity of crypto market structures were key sources of potential systemic risks emerging from crypto-asset markets. He also mentioned that price volatility appeared high across crypto instruments in general, and it tended to be substantially higher than that of real assets (oil and gold), or European equities. On the system-wide stress test topic, the Head of EAIA explained that the EBA was of the view that while occasional system-wide stress tests could be beneficial for capturing macroeconomic impacts and inter-sectoral dynamics, they should not become a regular yearly exercise, due to the complexity and the lack the granularity necessary to address the intricacies of individual sectors and to gauge impacts at the micro level. The primary focus should remain on the detailed, sector-specific stress tests that were critical to the existing supervisory framework. In this regard, he also mentioned the Fit-for-55 climate risk scenario analysis, which was an example of a successful, cross-sectoral and system-wide exercise with however high costs in terms of resources and governance. Finally, the Head of EAIA suggested that the EBA was also of the view that one way to achieve more coordinated supervision on NBFIs could be by implementing an EU-wide supervisory framework based on a methodology for the identification of asset management companies that were large enough to rise systemic risk concerns. The EBA suggested considering the methodology currently applicable under the IFD/R and CRD to identify Class 1 investment firms as well as Class "1 minus" investment firms. The supervisory coordination over large asset management companies could be improved by considering the practices for the supervisory review process as well as the

framework for the functioning of supervisory colleges. However, the specificity of asset managers' business models should be duly considered and a mechanistic transposition of a bank-like prudential supervisory framework to asset managers should be avoided. From a macroprudential perspective, priority should be given to a decision-making approach focused on jurisdictional or sectoral levels.

56. The Members supported the overall direction of work. However, they made comments on the suitability of IFR/D rules being applied to asset management companies, and to broader NBFI work, data gaps and on the challenges around the system-wide stress test. On data gaps, several Members stressed that the EBA response should clarify that the data and granularity of data on exposures were limited. With regards to the system-wide stress test, one Member was of the view that it could be a tool to address the data gaps and others added that it should become a standard recurring tool that would be complementary to sectoral stress tests. Another Member commented on the area of Supervisory coordination and said that while they supported increased data sharing between the ESAs, they would not be supportive of setting up new forums, nor would the Member be supportive of top-up power to the ESAs. One Member noted that an assessment solely based on balance sheet size would be incomplete as it did not necessarily correlate with systemic risk, and some Members noted they would appreciate the inclusion of activity-based measures. Several Members informed that they would send written comments.

57. The ECB representative highlighted the importance of coordinated regulation and mentioned the work done by the Financial Stability Board.

58. The ESMA representative referred to the previous work of ESMA on reciprocation frameworks and also mentioned different views on some aspects of the EBA response.

59. In his response, the Head of EAIA confirmed that the EBA would further consider proposals for the system-wide stress test, leveraging also on the recent experience with the Fif-for-55 exercise. The EBA would also identify areas for more granular supervisory data.

60. The Chairperson concluded by noting the Members' comments on the data gaps, stress test and asked them to send written comments by 25 October 2024.

Agenda item 9: AOB

61. The Members did not raise any other business comments.

Participants of the Board of Supervisors' meeting on 16 and 17 October 2024[1]

Chairperson: Jose Manuel Campa

Country	Voting Member/High-Level Alternate	National/Central Bank
1. Austria	Helmut Ettl/Pascal Hartmann[2]	Karin Turner-Hrdlicka
2. Belgium	Jo Swyngedouw	
3. Bulgaria	Stoyan Manolov	
4. Croatia	Sanja Petrinic Turkovic	
5. Cyprus	Constantinos Trikoupis	
6. Czech Republic	Marcela Gronychova	
7. Denmark	Louise Mogensen	
8. Estonia	Andres Kurgpold	Timo Kosenko
9. Finland	Marko Myller	
10. France	Nathalie Aufauvre/Francois Haas	
11. Germany		Karlheinz Walch
12. Greece	Heather Gibson	
13. Hungary	Csaba Kandracs	
14. Ireland	Gerry Cross	
15. Italy	Andrea Pilati/Francesco Cannata	
16. Latvia	Ludmila Vojevoda	
17. Lithuania	Renata Bagdoniene	
18. Luxembourg	Claude Wampach	Christian Friedrich
19. Malta	Anabel Armeni Cauchi	Oliver Bonello
20. Netherlands	Steven Maijoor/Willemieke van Gorkum	
21. Poland	Kamil Liberadzki	Pawiel Gasiorowski
22. Portugal	Rui Pinto/Jose Rosas	
23. Romania	Catalin Davidescu	
24. Slovakia	Tatiana Dubinova	
25. Slovenia	Damjana Iglic	
26. Spain	Angel Estrada	
27. Sweden	Magnus Eriksson	David Forsman

EFTA Countries	Member	
1. Iceland	Bjork Sigurgisladottir	
2. Liechtenstein	Markus Meier	
3. Norway	Per Mathis Kongsrud	Sindre Weme

Observer	Representative
1. SRB	Karen Braun-Munzinger

Other Non-voting Members	Representative

[1] Eida Mullins (Central Bank of Ireland); Marek Sokol (CNB); Marco Giornetti (Bank of Italy); Jana Pace Hili (MFSA); Nina Rajtar (KNF); Pawel Gasiorowski (NBP); Caro Dullemond (DNB); Capucine Amez-Droz (ACPR); Gaëtan Doucet (NBB); Marc Peters (EC)

[2] Expert representing the FMA without voting rights

1.	ECB Banking Supervision/ECB	Thijs Van Woerden/Cornelia Holthausen
2.	European Commission	Ugo Bassi
3.	EIOPA	
4.	ESMA	Roxana De Carvalho
5.	EFTA Surveillance Authority	Marta Runarsdottir
6.	ESRB	Karen Braun-Munzinger, Ralf Jacob

EBA

Executive Director	Francois-Louis Michaud
Directors	Isabelle Vaillant Meri Rimmanen Marilin Pikaro Marc Andries
Heads of Unit	Philippe Allard Lars Overby Angel Monzon Jonathan Overett-Somnier
Experts	Tea Eger Raffaele Passaro Mario Racomora Aniko Hrubi Alex Herr Clara Garcia Achilleas Nicolaou Dimitrios Mokas

For the Board of Supervisors

Done at Paris on 27 November 2024

[signed]

José Manuel Campa

EBA Chairperson