



EBA BS 2019 497

Board of Supervisors

15 October 2019/13:00-18:00

16 October 2019/09:00-17:15

Location: Paris

EBA-Regular Use

Board of Supervisors meeting – Final Minutes

Agenda item 2: Welcome and approval of Agenda

1. The Chairperson welcomed the participants. With regard to the Minutes of the previous meeting, the Chairperson mentioned that they were circulated on Monday before the meeting.
2. The Chairperson informed about the changes in the BoS membership, in particular that Vytautas Valvonis stepped down and that no new BoS voting member from Lithuania has been appointed until now. He also mentioned that Renata Bagdoniene would continue as EBA BoS High level Alternate.
3. Finally, the Chairperson reminded the BoS that the 2020 BoS Away Day was scheduled for 9-10 July 2020. He thanked the Croatian National Bank, which is hosting the 2020 BoS Away Day in Dubrovnik.

Conclusion

4. The BoS approved the Agenda and the Minutes of 19 September 2019 BoS meeting.

Agenda item 3: Selection procedure for the appointment of the EBA Executive Director

5. The Chairperson updated the BoS on the latest developments in the selection process for the next EBA Executive Director. The selection procedure and vacancy notice were approved by the BoS in the September meeting. Nominations for the selection committee were opened until 7 October.
 6. The EBA Head of Legal Services continued by explaining that in line with the procedure agreed by the BoS, the selection committee would have two BoS Members, plus two alternates who
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would take their place if necessary, and a member from the Commission. The EC would be represented by Martin Merlin. He announced that the EBA received four nominations from the BoS. He asked the BoS to vote for two of the four candidates to be members of the selection committee. The two candidates with the most votes would be elected as members and the other two as alternates. The highest-placed BoS candidate in the vote would chair the selection committee, supported by EBA legal and HR staff. He also mentioned that the selection committee would screen applications, shortlist up to six candidates for pre-selection interviews, and then draw up a shortlist of three candidates for BoS interviews. He concluded by mentioning that the selection committee would meet for the first time on 16 October (before the second day of the BoS meeting).

7. Votes were cast.

Conclusion

8. The BoS approved:
 - Jesper Berg as the chair of the selection committee
 - Sissy Papagiannidi as a member; and
 - Alessandra Perrazzelli and Pedro Duarte Neves as alternate members of the selection committee.

Agenda item 4: Appointment of a Member of the Management Board

9. The Chairperson reminded the BoS that given a recent departure of Martin Noreus, there was a vacant position at the Management Board. To that end, the EBA launched a call for expression of interest on 30 September 2019 by means of written procedure to fill the vacant position. The EBA received one application from Ms Sissy Papagiannidi, Director, Banking Supervision Department, Bank of Greece.

Conclusion

10. The BoS approved the nomination of Sissy Papagiannidi as a Member of the Management Board.

Agenda item 5: Basel III Call for Advice

11. The EBA Director of Economic Analysis and Statistics Department (EAS) and the EBA Director of Prudential Regulation and Supervisory Policy Department (PRSP) reminded the BoS that the EBA published its response to the CfA on the Basel III post-crisis reforms in the policy areas of credit risk, securities financing transactions (SFTs), operational risk, and output floor, on 5 August 2019. While for the other policy areas the deadline to deliver the response was 30 June

2019, for CVA and market risk the expectation was to deliver the response by 30 September 2019. This extended timeline was envisaged to reflect the revisions brought to the FRTB standards in 2019, and also potential revisions to the CVA standards that could have been finalised by that deadline. To that end, the EBA drafted its response to the CVA risk and market risk parts of the CfA, which also included a macroeconomic impact assessment of the Basel III reforms developed in cooperation with the ECB. The documents are also meant to address the mandate in Article 519b(1) of the CRR2, which requests the EBA, by 30 September 2019, to report on the impact on institutions in the EU of international standards to calculate the own funds requirements for market risk.

12. The ECB representative presented the macroeconomic impact assessment, outlining the costs and benefits of the finalisation of the Basel III package. He mentioned that there were some transitional costs, which would fade over time, these costs would imply that EU GDP growth fell by 0.2 percentage points in the first four years after implementation of the reform, turning positive in the subsequent years, and amounts to close to zero afterwards. With regard to permanent net benefits, the ECB was expecting lower severity of economic downturns whereby annual GDP growth would improve by around 0.2 percentage points in adverse circumstances (GaR approach) and a reduction in crisis probabilities implying long-term net benefits of the reform of around 0.6 percent of 2017 EU GDP (LEI approach).
13. The BoS supported the work performed and the response to the CfA on CVA and market risk, and it provided suggestions on issues for steering. With regard to the removal of the CVA exemptions, many Members supported the proposed policy recommendation for endorsement included in the policy report. In this regard it was noted that the removal of the exemptions is supported from a prudential perspective given underlying risks and also provides alignment to the Basel standards, as well as incentivises the central clearing of transactions currently exempted from CVA capital requirements. In light of the latter, one Member noted that as a result of incentivising central clearing, as the impact assessment did not include a change in behaviour the estimated impact could be expected to be an overestimation. Some Members stressed the need to monitor the impact of the removal of the exemptions in the revised CVA framework, and the introduction of transitional arrangements to smooth the capital impact that the removal of the exemptions could imply was welcome in this regard.
14. With regard to the policy recommendation on the qualitative add-on for the multiplier under the Internal Models Approach (IMA) for market risk which is not explicit any more in CRR2, several Members supported to include it in the policy report. Other Members requested further analysis on this issue. One Member highlighted the fact that in order to fully comply with Basel rules and to guarantee the independence of the validation unit, validation unit must be separate from the modelling unit and directly report to senior management.
15. With regard to the macroeconomic impact assessment, some members welcomed its findings, and suggested to develop a communication strategy around it, in order to support the implementation of the Basel III reforms which are shown to provide net benefits. Finally some

Members provided also some suggestions as regard the finalisation of the reports, and in this regard it was asked whether the EBA could also provide country specific impacts in the impact assessment, as it was performed for the one published in August 2019.

16. With regard to the timing for publishing the response to the CfA, many Members agreed to wait the developments at international level before proceeding with the publication of the EBA advice. The EC representative acknowledged the need to consider the international developments, however urged for a soon publication as the reports would serve the Commission's impact assessment for the purposes of the legislative proposal on the Basel III revisions. At the same time, the ECB representative welcomed not to delay the publication of the macroeconomic impact assessment.
17. With regard to the country specific impacts, the Director of EAS confirmed that the EBA could provide such specification. With regard to the timing for publishing the EBA advice, the Director of PRSP suggested that the EBA may withhold the publication until end November to take into account the developments at international level, and update as appropriate its response on the basis of those developments to the extent possible.
18. The Chairperson concluded that there is support for the response to the CfA on CVA and market risk, and there is a clear consensus to align with the Basel standards and thus support for the policy recommendation on the CVA exemptions included in the report presented for endorsement. With regard to the timing for publication, there is a need to consider the timing that the legislative process requires while considering the international developments, and in this regard there is a consensus to publish the response by the end of November, in a way that reflects to the extent possible such developments. With regard to the policy recommendation for the qualitative add-on for the multiplier under the IMA for market risk, the large majority supports the inclusion of this recommendation in the policy response, which therefore should be included.
19. The discussion continued with a presentation by the EBA Head of Unit Economic Analysis and Impact Assessment (EAIS) on the follow up work. He mentioned that on 15 July 2019, the EBA received a letter from the EC asking to provide additional analysis in four different areas of the Finalised Basel III framework: output floor, equity exposure, specialised lending, TLAC/MREL. The request was discussed at the Management Board (MB) meeting in September and the MB agreed that an additional data collection at individual entity level should be carried out to inform the impact analysis with regard to output floor; an additional data collection at individual entity level should be carried out to inform the impact analysis on intra-group equity exposures, and an additional analysis should be based exclusively on already available data from the first CfA QIS, to the extent that meaningful analysis can be put together with regard to specialised lending. Regarding the timeline of the work on output floor and equity exposures, the MB concluded that the results of the EBA analysis would be submitted, on a best effort basis and conditional on actual data quality, to the February 2020 BoS for approval, and subsequent submission to the EC in response to their letter. On specialised lending and

TLAC/MREL, the EBA was planning to respond to the EC by the end of the year without any additional data collection.

20. The ECB representative was concerned that the data collected at the individual entity level would not provide all relevant information. He proposed to select a few institutions for a more deeper analysis and to asked them to provide all necessary data and based on their input, the EBA might want to consider how to response to the EC request.
21. Some Members pointed out that while solo basis might work for some countries and their banking groups, it would be better to focus on business models and ownership structures of each banking group. It was clarified that solo data were only requested when capital requirements were applied at this level by the relevant CA. Another Member suggested that the collected data would be more valuable if institutions were also asked to provide qualitative information on their change in behaviour.
22. The SRB representative stressed that the Resolution Committee needed to be involved on the outcome of the TLAC/MREL analysis.
23. The EC representative reminded the BoS that the request for data was mentioned already in their initial CfA from May 2018. He stressed the need for a timely submission, which was necessary for their impact assessment and further legislative work. He acknowledged the difficulties and clarified that the EC would accept more targeted data if delivered at the beginning of 2020 at the latest.
24. One Member, while supporting the work, highlighted that the EBA and the BoS might conclude that the quality of collected data would not be sufficient for any proper delivery. In this regard, he mentioned that the sample of banks in the case studies as suggested by the ECB should be as representative as possible because otherwise, the data would be only for some banks, or for some business models.
25. The Head of EAIA reminded the BoS that the timeline was very challenging and therefore any possible deeper analysis needed to be restricted to a small number of institutions only. Furthermore, there was no methodology for these types of data collections and that banking groups had very complicated structures, which made the exercise burdensome.
26. The Chairperson summarised that the work would continue as proposed and that once the EBA had the data, it would assess its quality and next steps.

Conclusions

27. The BoS supported the work performed and the response to the CfA on CVA and market risk, as well as the macroeconomic impact analysis.

28. The BoS supported to wait until end of November for the finalization of the response to the CfA so as to assure full alignment of the CVA proposals with any international proposals arising in Basel.
29. The BoS acknowledged with the approach to respond to the additional requests from the EU Commission and to start the data collections, acknowledging the caveats of the analysis and difficulties in obtaining adequate data, reassessing the meaningfulness of the information obtained before delivery.

Agenda item 6: EU-wide Stress test exercise

30. The Chairperson introduced the item by reminding the BoS that at the previous meeting in September, the EBA staff updated on the feedback received from the banks on the 2020 EU-wide stress test draft package, which was published for industry discussion during summer time.
31. The EBA Head of Unit Risk Analysis and Stress Testing (RAST) continued by summarising the main changes compared to the methodology presented at the last meeting, in particular related to the net interest income (NII), market and credit risk. An intervention on the stress test scenarios by the ESRB representative followed. He informed that the ESRB needed more time to assess impacts of both of the scenarios requested to analyse and that they would deliver it in the coming days. He proposed that the EBA organised an BoS conference call shortly after their work has been delivered to discuss their findings and to ensure that the BoS provide a steer with regard to the preferred scenario.
32. The ECB representative was in favour of publishing the agreed timeline in order to inform about planned next steps. On the other hand, he was against publishing a precise date when competent authorities (CAs) would submit their data to the EBA. With regard to the FAQ process, he wondered whether there had been any final decision on the process and the number of days needed for turnaround of questions as the overall methodology was not approved yet. He was also of the view that it would not be beneficial to publish the narrative of the scenario separately. On the NII, he was in favour of a prescribed split of the effective interest rate into margin and reference rate for the starting point. By doing so, banks would be requested to use the starting point SWAP curve as a reference rate, which might deviate from their internal systems. By leaving it to banks there might be a possibility to game the exercise by overstating the starting point margin.
33. Regarding the methodology, one Member requested the FX treatment to pursue a comprehensive approach, based on P&L, balance sheet and hedges, in contrast to the partial treatment of FX positions that considers only the interest margin. He also added that if these amendments could not be introduced in the current methodology, they should be properly taken into account during the quality assurance. No Member objected to this request.

34. With regard to the scenarios, one Member suggested to include an aspect of the risk premium increase in the lower for longer scenario. Other Members questioned whether any changes to the methodology would be necessary based on a possible lower for longer scenario. Another Member stressed the importance to use multiple scenarios for the relevance of the exercise. As regards the NII, one Member stressed that up to now there was no guarantee that this part of the methodology is suited to the “lower-for-longer” scenario, and asked that the EBA expert group to further investigate the topic.
35. One Member supported the view that submission dates should not be published. Some members supported the change proposed by the ECB representative in the methodology.
36. Some Members were of the view that the narrative should not be published separately.
37. The Head of RAST clarified that the intention was not to change the methodology, which is almost finalised, but the scenario should be decided based on the current methodology.
38. The Chairperson concluded that the EBA would organise a conference call to discuss the scenarios in the coming days.
39. The discussion continued with a presentation on long term changes to the EU-wide stress test by the Director of EAS. He provided a description of the key four principles that any revision of the stress test should target. He continued with providing an explanation of the broad characteristics that a revised constrained bottom-up approach with some relaxation of the existing methodology may followed. He indicated that such approach would start by providing two views – a bank and a supervisory assessment. Both views will use a common scenario, but would be allow to relax in different ways the constraint methodology. He continued by presenting options for combining the two legs. The presented options for combining them included: converging to a single view, through a dialogue between the banks and supervisory that will lead to the agreed outcome; second, an approach where the supervisory leg was the dominant one. Regarding the disclosure, the disclosure would be at least as detailed as the current disclosure level. In the case of disclosure of the two different views, the disclosure of the supervisory leg could be limited to a few data points. He also presented the timeline for implementing possible changes and stressed that, if the intention was to implement the revised framework in the 2022 exercise, a final decision on the changes would be needed by September 2020.
40. The ECB representative acknowledged that the changes would need to be further discussed. He also mentioned that if the changes were not agreed by September 2020, the exercise would have to be postponed to 2023. With regard to the two legs, he was of the view that, ideally, no quality assurance would be required from supervisors on the bank leg. He emphasised that the supervisory leg would be the dominant leg, which started with a constraint bottom up methodology and was quality assured by a top down model. He asserted that the current top-down models were not ready to replace the bottom-up approach. One of the main goals should be to reduce the supervisory costs, which meant that the quality assurance had to be

optimised. Regarding the disclosure, he supported full transparency on banks leg results, while for the supervisory leg there would be limited disclosure, starting points and capital depletions for 3 year horizon. Regarding the timeline, he supported the final decision by September next year, later than that date would mean that changes in the exercise would not apply to the 2022 exercise.

41. While some Members showed scepticism on how to combine the two legs, others agreed to develop them in the discussion paper to be published in the coming months. One Member stressed that the discussion paper should only be published once there was an agreement on the changes to avoid unrealistic expectations from the industry. One Member was of the view that the changes should be such that the EU-wide stress test would be complementary to their national stress tests. Other Member highlighted a need for working on the realism of the results as many banks seemed to be too optimistic when it came to their performance.
42. Many Members raised concerns related to current practise resulting into discussions with banks in the QA process on various points, which should be addressed by the changes, namely, improving efficiency of the QA process.
43. On the supervisory leg, some Members were of the view that there should be a very clear methodology as banks considered it being a black box and did not understand it. The majority of Members agreed that it should be the supervisors who were in charge of the stress test exercise and therefore, the top down approach should be strengthened. Two Members showed support for having a hybrid approach in the supervisory leg.
44. On the bank leg, many Members suggested that some parts, like the level of prescriptiveness of the methodology and the amount of disclosure, should be allowed flexibility when developing it in the discussion paper.
45. A couple of members supported the SSM idea, mentioning among other things that some risks, such as market risk, need the banks bottom-up input even in the supervisory leg.
46. One Member highlighted that a good communication strategy was necessary in order to promote the changes.
47. The Director of EAS acknowledged the majority view supporting the dominance of the supervisory leg and a need for clear division of results ownership. Developing a top-down approach is not impossible, but should rather be an ambition. On the bank leg, it seemed that Members supported various options from the current constrained bottom-up approach (with an option of dropping constraints) to ICAAP alike approach. He suggested to continue developing the options and try to close the gap between the supervisory and bank leg. Also, in the further analysis, the two leg approach would be further developed and the focus should be on addressing the concerns of some Members on the interaction of the two legs, in particular: how to communicate two set of results and try to reconcile them as much as possible; how to avoid that the two leg approach became overly burdensome for banks and supervisors; the level of disclosure of the two legs.

48. The Chairperson summarised that there was an appetite for improving the current approach and that the EBA staff would continue working on various proposals. He stressed that any external formal communication should be carefully considered in order to avoid that it jeopardise the 2020 exercise as well as to avoid committing to any specific deadlines with regard to the changes.

Conclusion

49. The BoS broadly approved the publication of the 2020 stress test package to be sent for approval via written procedure.

Agenda item 7: Opinion on the deadline for the migration to SCA for e-commerce card-based payment transactions

50. The Chairperson reminded the BoS of previous discussions and mentioned that given the legislative deadline of 14 September 2019, the EBA was expected to communicate on the extended deadline without further delays.
51. The EBA Head of Unit Conduct, Payments and Consumers (COPAC) presented the updated Opinion, amendments made to the Opinion and restated the reasons why it was difficult for the EBA to agree to the request by some industry players for an 18 months deadline. In addition to the reasons stated in the Opinion, he added concerns from consumer associations, and mentioned that Europol had identified the EBA's decision to grant the flexibility in June as one of the drivers for increased security risks in Europe.
52. The EC representative supported the work done by the EBA but reminded BoS Members that both PSD2 and the Delegated Act were in force, hence regardless of the present Opinion, they can be invoked and relied upon in a court of law. With respect to the deadline in the Opinion, Commission maintained a strong preference for a short timeline.
53. Some BoS Members were of the view that any further delays were putting some new market participants in a disadvantageous position and that more pressure should be put on the industry to implement necessary changes.
54. Other Members restated their concerns raised in the past regarding the unpreparedness of their industry and a need to ensure consumers are able to continue to make payments.
55. Several BoS Members acknowledged the market situation and supported the 18-months delay. With this regard, some Members highlighted potential challenges arising during the pre-Christmas season and the impact of the unpreparedness of the industry.
56. The Chairperson summarised that while the BoS agreed to publish the Opinion without further delays, there was no clear agreement on the timeline. Therefore, he proposed a compromise stating that the supervisory flexibility should end on 31 December 2020, which should be

sufficient for issuing payment service providers (PSPs), acquiring PSPs and their merchants to migrate to SCA-compliant approaches and solutions.

Conclusion

57. The BoS approved the publication of the Opinion with a deadline on 31 December 2020.

Agenda item 8: ESAs' review

58. The Head of Legal Services introduced the item by mentioning that the EBA staff have been doing a lot of work on the ESAs Review, together with ESMA and EIOPA and with input from the EC. He presented draft texts covering most of the topics on which BoS decisions would be needed in December ahead of entry into force of the ESAs Review on 1 January 2020. The topics presented focused on: updated rules of procedure for the EBA's Boards; mandates for the proposed Advisory Committee on Proportionality and Anti-Money Laundering Standing Committee, and updated mandates for other committees; and updated processes for breach of Union law investigations, dispute settlement and the Q&A process.

59. The EC representative acknowledged the work in progress and said that the EC would send their comments in writing. On the conflict of interest he clarified that the law has changed and it covered any interest which might be considered prejudicial to the independence of the BoS Members in relation to any items on the agenda. The conflict of interest requirements in the founding regulation were now broader and went beyond pure private matters. He clarified that the new requirements covered decisions and other measures that were targeting a specific and individual CA. Regarding the extent of the prohibition to participate in discussions and to vote, the EC representative said that the legal text was clear that Board members could not participate in discussions or vote on items in respect of which they have a conflict. This should not be confused with the principle of the right to be heard which arises before any individual act (decision or other measure) was decided on. On the composition of panels for mediation and BUL, the EC representative said that they should include both EBA staff and staff of the CAs. With regard to the advisory committee on proportionality (ACP), he was of the view that no external participation, including BSG members, was envisaged in the legal text. He also emphasized that the legislation did not intend to use proportionality principle for solving the issues in all areas where legislation had unintended consequences. One Member indicated that the legal possibility for external participation to the ACP should be clarified as external participation would serve the goal of the ACP greatly and thereby ensure its relevance. Furthermore, the Member stressed that the ACP should not review the work of the EBA but rather provide ex ante advice exclusively.

60. One Member referred to a letter on conflict of interest they sent to the EBA Chairperson and BoS Members ahead of the meeting. He was of the view that the present personal scope on conflicts of interest should remain and referred to that his country representative in the negotiations on the ESA review had a very different impression of what was agreed than that presented by the Commission representative, an impression that was confirmed in a recent

meeting in the jurist linguist group that was working on the translation of the text. Several Members supported different parts of the various points made in the letter. Several Members however were not opposed to a larger scope on the conflicts of interest provision and would be in favour of the right for a member to take part in the discussions and then leave for the vote. One Member specified that an unconditional right to be heard should be made explicit in the rules of procedure for all decision making bodies with in the EBA and the MB.

61. The ECB representative stressed the importance of high-level representation in the new committee on AML (AMLSC). This was supported by some Members. The SSM would like to participate in this new committee as an observer and would like to participate to the advisory committee on proportionality as well.
62. The SRB representative requested clarification of some changes in the rules of procedures in relation to the role of representatives of resolution authorities, in particular for mediation processes, and need to take account of the SRB input when developing the EBA's resolution handbook.
63. The Head of Legal Services clarified a number of the points raised. The Chairperson concluded by asking the BoS to send their written comments by 25 October, following which final proposals would be brought to the December BoS meeting or, where appropriate, in written procedure.

The Agenda item 9: Brexit update

64. Discussion in a restricted setting (EU 27).

The Agenda item 10: Update on risks and vulnerabilities in the EU

65. The Director of the EAS provided an update on risks and vulnerabilities in the EU with a focus on the low interest rates environment. He mentioned that market participants expect interest rates to remain at current low levels or contract even further for a long period. Against this backdrop, banks' funding curves have flattened and bank debt securities with negative yields are becoming more common. The Director of the EAS presented an indicative analysis that showed that, on EU/EEA average, around 22% and 3% of the banks charged negative rates for NFC and household (HH) deposits, respectively. Yet the income from these practices was not material. He concluded by pointing that banks' net interest margin (NIM) has not shown any signs of improvement in recent quarters (1.43% in Q2 2019, unchanged YoY).
66. The Director of PRSP continued by presenting key topics for supervisory attention for 2019 and 2020. For 2020, the key topics selected were profitability, loan origination standards, ICT risk and operational resilience, capital and liability management, and AML/CFT risk and other conduct risk for prudential regulators.
67. Presentation by DE and DK BoS Members followed. The DE Member presented results of the 2019 Less Significant Institutions stress test conducted by the Bundesbank and BaFin with a

main focus on current and future earnings, which included the impact from negative rates. The DK Member summarized negative interest rates developments at the national level and provided an analysis of potential consequence of the low interest rate environment.

68. With regard to the low/negative interest rates, many Members acknowledged the challenging situation for banks profitability. Some of them emphasised the need for overcapacity reduction and digital transformation. Other participants mentioned legal impediments for the application of negative rates to retail depositors while others considered low/negative rates as an opportunity for banks to build their MREL buffers. A Member showed his concerns about the risks related to a bank funding structure more reliant on wholesale funding and the unpredictability of depositors' reaction to negative rates. Another participant pointed to banks' search for yield and their current focus on rather high risk loan portfolio expansion and declining shares of term deposits vs. overnight ones.
69. On the key topics for supervisory attention, one Member was of the view that the ICT risk and operational resilience should be on the top of the agenda and that CAs could learn from each other. Other Member was concerned that the timeline for the topics was too short and that climate aspects would also need to be considered. Other Members supported the key topics and mentioned that they were planning to align their national work with them.
70. One Member mentioned that they have seen a trend of balance sheet optimisation at their national level, which lead to lowering capital rather than diversifying risk.
71. The Chairperson summarised that banks need to transform organically and non-organically, not least to cope with their elevated cost levels, and that the EBA should further analyze the issue of negative interest rates, particularly possible legal limitations to implementing negative rates on retail depositors, and monitor it.

Conclusions

72. The BoS supported the key topics for supervisory attention.

Agenda item 11: CRD-CRR and BRRD roadmaps

73. In his introduction, the Chairperson reminded the BoS that the so-called Risk Reduction Measures package was published in June and that the EBA has been tasked with a high number of new mandates to complement and monitor the application of the EU Law.
74. The Director of PRSP continued by clarifying the EBA's plan how and within what timeframe the EBA intended to fulfil all its mandates. Given the wide scope of the task, the EBA composed a general Chapeau roadmap and five specific roadmaps to cover each area; i.e. governance and remuneration, Pillar 2, large exposures, reporting and disclosure, and finally, resolution matters.

75. The SSM representative acknowledged the workload and proposed to keep time for the work on large exposures and not to publish it before December 2020. The proposal was supported by several BoS Members.
76. Several Members stressed that the tasks under the Risk Reduction Measures package were challenging for all CAs.
77. The EC representative noted the concerns raised by some Members but stressed that the legislation came from the Council and the European Parliament. He also acknowledged the delays as presented but requested to follow the legislative timeline and in particular for the governance work to ensure the adoption before the CRD IV deadline as well as timely delivery of the BRRD2 mandates.
78. The SRB representative stressed that the adoption of the RTS specifying methods to avoid internal MREL instruments hampering the smooth implementation of the resolution strategy and the permissions regime should take place closer to the original legal deadline in order to ensure that banks were aware how they should structure their internal issuances. Also, he pointed out that the competent and resolution authorities already had to apply the permissions regime.
79. The Chairperson noted the pressure on resources and stressed that any legislative deadlines shorter than six months were very challenging for the EBA because the drafting and consultation procedure of its legal tools required longer timelines. He concluded that the EBA would finalise the roadmaps, include the adjustment on the expected delivery on large exposures, and following the editing process all roadmaps will be published jointly. Finally, he asked the Members to send their drafting comments after the meeting.

Conclusions

80. The BoS supported the publication of the roadmaps.

Agenda item 12: Consultation paper on Structural FX guidelines

81. The Chairperson introduced the item. The EBA Policy Expert continued by clarifying that following the publication of a Discussion Paper in 2017, the EBA developed the guidelines on structural FX to fill the regulatory gap that was leading to an uneven application among EU jurisdictions of the Structural FX treatment. He also mentioned that the EBA was expecting to attract strong interest from market participants, including from non-EU jurisdictions considering that in the Basel standards the structural FX treatment is relatively unspecified.
82. The BoS supported the work. The ECB representative commented on the ongoing monitoring of the waiver that should be dynamic and proposed to include clearer and more open wording. Three Members supported the proposal.

83. One Member was concerned that the consultation paper did not include an in-depth impact assessment but acknowledged that this could be improved following the consultation period.
84. The Policy Expert explained that the provisions on ongoing monitoring, including the possibility to withdraw a previously granted waiver, being a part of general supervisory powers, were included in the background of the consultation paper for further reference.

Conclusion

85. The BoS approved the publication of the consultation paper.

Agenda Item 13: NPL securitisation – Opinion

86. The Chairperson introduced the item and clarified that the Opinion, if approved by the BoS, would be published and transmitted to the Commission.
87. The EBA Head of Unit Banking Markets, Innovations and Products (BMIP) informed the BoS that the Opinion was the result of intensive technical work and that it reflected the consensus view among EU competent authorities that NPE securitisations were subject to undue constraints under the current regulatory framework.
88. While the BoS supported the Opinion, two Members raised some objections. They expressed the view that using securitisations as an NPE clean-up mechanism would not help remove NPEs from the banking system if banks subscribe the senior tranche. Furthermore, they disagreed with what they regarded as the opinion's positive overall tone on NPE securitisations and, instead, recommended amending the document to tone it down. One Member commented on the guidelines on loan origination, which include templates on NPE exposures.
89. The Chairperson acknowledged the concerns raised by these Members.

Conclusions

90. The BoS approved the Opinion to the Commission and its publication on the EBA's website.

The Agenda item 14: Guidelines on ICT risk management for institutions – Final report

91. The Chairperson reminded the BoS that the guidelines have been developed to address the European Commission FinTech Action Plan request to the EBA to draft Guidelines on ICT risk management and mitigation requirements in the EU financial sector, and to ensure a consistent approach across all institutions and a level playing field in the EU financial sector.
92. The Head of BMIP continued by summarising the consultation process and mentioning that the guidelines were built on the requirements set out in the 'Guidelines on security measures for operational and security risks of payment services' under PSD2. They set a long awaited

guidance to the industry on how to manage ICT and security risks. At the same time, they allow sufficient flexibility and, for example, did not prescribe for the dedicated information security function to be located within the second line of defence.

93. One Member mentioned that a number of responsibilities related to the information security function were not clear following the last revision of the text (section 3.4.1), for example the responsibility on the approval of the Information Security policy.

Conclusions

94. The BoS approved the publication of the final report as tabled for the BoS meeting.

Agenda Item 15: AML Work Agenda

95. The Chairperson reminded the BoS of the discussion during the EBA BoS Away day in July on the role that the EBA should play in the implementation of the new tasks in the area of AML/CFT and said that since then, the EBA has been reflecting on this discussion, also in the view of the ESAs review.
96. The Director of BMIC noted that the new AMLSC had already been discussed and therefore in his presentation, he focused on the new tasks under the EBA's Regulation with regards AML/CFT, identifying the approach being taken to date and envisioned timelines, as well as updating the BoS on the ongoing implementation reviews.
97. On the implementation reviews he noted that reviews would continue after a successful roll out in 2019. He also noted that in line with the EBA's approach to date, the timing of each review would take account of other CA commitments, including planned FATF and Moneyval Mutual Evaluations and the Commission's forthcoming review of MSs' implementation of Directive (EU) 2015/849. The EBA was working with the Commission and the Council of Europe, who were going to carry out those reviews on the Commission's behalf, to join up with those reviews on relevant CAs to avoid duplication and ensure efficiency. The Members agreed on the need to continue the EBA's reviews and welcomed the EBA's coordination efforts. Some members mentioned that in respect of the forthcoming Commission/Council of Europe reviews, consideration should be given to aligning the Council of Europe's methodology for the assessment of competent authorities with that of the EBA's implementation reviews.
98. On the new tasks, the Director of BMIC explained the direction of travel in relation to the AML/CFT database, risk assessments under Article 9a of the new EBA Regulation and requests for investigations under Article 9b of the new EBA Regulation as well as the EBA's duty to engage with FIUs and third countries in respect of its AML/CFT tasks. He outlined the potential range of quantitative and qualitative inputs to the database along with an explanation as to how the outputs would be used, for example by responding to 'reasoned requests' from CAs and importantly, by informing the EBA's wider ML/TF risk work and its risk based approach in relation to AML/CFT policy and strategy. He also explained annual risk assessments of CAs, as outlined in the Regulation, in the context of peer reviews and implementation reviews, to

which they would be a complement. Finally, he clarified the steps, informal and formal, that would make up the process for requesting investigations under article 9b.

99. The BoS welcomed the early stage thinking and agreed with the direction of travel. Several Members were of the view that the EBA should publish the work plan in AML in order to inform the market about the EBA's work and timeframes.
100. Several Members stressed the need for the EBA to work with CAs to establish the best way to obtain information for central database purposes, with one Member noting that consideration should be given to establishing a specific AML reporting regime to ensure consistency across CAs and enhancing communication between the EBA and CAs for database usage. Another Member asked to what extent the existing FATF database could be of use for the EBA's database.
101. The ECB representative requested that all documents specify when AML/CFT CAs were being referred to and when prudential CAs. He also requested that the ECB should be an observer at the AMLSC and potentially, the AMLSC's substructures and suggested greater clarity around potential prudential authorities input to the database.
102. The EC representative supported the EBA's current work and proposed way forward and stressed the importance of cooperation between the EBA and the Commission, in order to avoid any overlaps or duplication of work.
103. The Director of BMIC welcomed the support and noted the proposals and that would inform the work and further updates would be provided in due course.

Agenda Item 16: Report on obstacles to cross-border provision of digital services

104. In his introduction, the Chairperson noted the EBA's progress against the work plan set out in its FinTech Roadmap.
105. The Director of BMIC presented the EBA findings on the issues that may be impeding cross-border banking and payments activity, particularly at a time when financial services are being provided increasingly using digital means. He noted the report identified challenges for the single market without criticising the need for high levels of consumer protection etc. In this regard he summarised some recommended actions – particularly for the Commission in terms of updating its interpretative communications and some possible Level 1 changes to foster convergences such as complaints handling, disclosure and AML customer due diligence requirements. Finally, he referred to a customer focused infographics prepared by the EBA in order to provide some key tips for consumers to protect themselves when choosing and buying financial services via digital means, i.e. the internet or mobile devices, which would be translated and used by authorities across the EU to inform citizens.

106. A couple of Members pointed out that the conclusions in the report extended to the whole banking and payments sector while some of the basis for the analysis covered FinTech only. Another Member noted the need to continue promoting engagement between authorities on FinTech-related issues, and others noted the importance of addressing divergences at the national level to support the scaling up of business activities and support the Single Market.
107. On the infographics, one Member raised concerns whether they would be useful and read by consumers and that more pressure should be put on institutions to provide information that was clear, easy to understand, comparable and not misleading.
108. The ECB representative mentioned cases of institutions providing cross border services via platforms, which should be considered by the supervisors. He also requested more clarity of the relevant Level 1 texts in line with the findings set out in the report.
109. The Director of BMIC referred to the European Forum for Innovation Facilitators, which has been established to promote information exchange between competent authorities on FinTech-related issues with the aim of finding common ground as needed.

Conclusion

110. The BoS approved the publication on the report and the infographics.

Agenda Item 17: Opinion on disclosure to consumer through digital means

111. The Head of COPAC introduced the item by clarifying that one of the findings of the Report on obstacles to cross border provision of digital services was that further harmonisation of the legislative framework on disclosure should be considered. To that end, the EBA drafted a separate Opinion addressed to the EU Commission summarizing the results of its analysis of the suitability of the current legal framework in the EU applying to disclosure rules to the increased number of products and services that are being marketed through digital means. In the Opinion, the EBA listed proposals as to how the disclosure rules in EU law should be revised, in particular within the Distance Marketing of Financial Services Directives (DMSD).

Conclusion

112. The BoS approved the submission of the opinion to the EC.

Agenda Item 18: Opinion on DGS payouts

113. The Head of COPAC reminded the BoS that in fulfilment of the mandate in the Deposit Guarantee Schemes Directive (DGSD), the EBA was supporting the Commission in reviewing the implementation of the Directive. The EBA has committed to fulfilling this mandate by submitting three opinions to the Commission. He mentioned that the first opinion on eligibility of deposits, coverage level and cooperation between deposit guarantee schemes (DGSs) was

approved by the BoS and published on 8 August 2019. The Opinion on DGS payouts constituted the second of this trilogy. The final third Opinion would be submitted to the BoS later this year.

114. Some Members raised concerns related to the AML issues and intervention at national level. One Member referred to options 2.2 and 2.4 in the Opinion and that these might need to be further analysed.

115. The Head of COPAC explained that the AML issue as well as the comment on the options would be further considered. In particular, the AML issues might need to be addressed in other EU legislation.

Conclusion

116. The BoS approved the publication of the Opinion.

Agenda Item 19: Pillar 3 ITS – Consultation paper

117. The Chairperson introduced the two consultation papers on the ITS on institutions' public disclosures and supervisory reporting and explained that they are interlinked and therefore, they are submitted as a package.

118. The EBA Head of Unit Reporting, Loan Management and Transparency (RLMT) continued by specifying that the consultation papers have been developed following the respective mandates included in the CRR2. She also mentioned that it was the first time that the EBA was taking concrete action to foster the integration between the disclosure and the reporting frameworks, among others by mapping the quantitative information on both ITSs to each other. This integration aimed at increasing the quality of the data disclosed, further promoting market discipline and the comparability of data, and enhancing the efficiency of institutions' disclosures. The integration also constituted a major step forward towards the development of a centralised EBA disclosure data hub. She concluded by referring to the public hearing that was planned for 2 December.

119. One Member requested clarification on paragraph 73b) regarding the guidelines on disclosure of non-performing and forborne exposures in relation to small institutions, highlighting that the new ITS would supersede the current guidelines on Pillar 3 disclosures and in particular that the 2018 EBA guidelines on NPL would not remain applicable to small and other non-listed institutions.

120. The ECB representative pointed out that there were further items to be considered in the reporting new ITS, such as Pillar 2 deductions or additional granular information to address leverage ratio window dressing. He also mentioned the need to clarify the process for institutions to address errors in the data included in their Pillar 3 reports.

121. One Member proposed to integrate disclosure templates in the reporting in order to support the EBA's central hub strategy.

122. In her response, the Head of RLMT clarified that the EBA would further assess these topics during the consultation period.

Conclusion

123. The BoS supported the publication of both consultation papers.

Agenda Item 20: AoB

124. The Chairperson informed the BoS that a selection process of the new Chair of Resolution Committee would be launched just after the BoS meeting for two or three weeks, in order to select the new Chair at its following meeting.

125. The Chairperson also informed that the SCA Opinion was published on 16 October 2019.

Participants at the Board of Supervisors' meeting

15 – 16 October 2019, Paris

Chairperson: Jose Manuel Campa

<u>Country</u>	<u>Voting Member/High-Level Alternate¹</u>	<u>National/Central Bank</u>
1. Austria	Michael Hysek	
2. Belgium	Jo Swyngedouw	
3. Bulgaria	Stoyan Manolov	
4. Croatia	Martina Drvar	
5. Cyprus	Stelios Georgakis	
6. Czech Republic	Zuzana Silberová/Marcela Gronychová	
7. Denmark	Jesper Berg	Niels Bartholdy
8. Estonia	Andres Kurgpold	Indrek Saapar
9. Finland	Anneli Tuominen	Katja Taipalus
10. France	Frédéric Visnovsky	
11. Germany	Peter Lutz	Erich Loeper
12. Greece	Spyridoula Papagiannidou	
13. Hungary	Csaba Kandracs	
14. Ireland	Mary-Elizabeth McMunn	Geraldine Hannon
15. Italy	Alessandra Perrazzelli/Andrea Pilati	
16. Latvia	Ludmila Vojevoda	Vita Pilsuma
17. Lithuania	Renata Bagdoniene	
18. Luxembourg	Martine Wagner	Christian Friedrich
19. Malta	Marianne Scicluna	Oliver Bonello
20. Netherlands	Maarten Gelderman/Sandra Wesseling	
21. Poland	Kamil Liberadzki	Maciej Brzozowski
22. Portugal	Pedro Duarte Neves	
23. Romania		
24. Slovakia	Tatiana Dubinová	
25. Slovenia	Damjana Iglic	
26. Spain	Jesús Saurina Salas/Alberto Rios Blanco	
27. Sweden	Karin Lundberg	Camilla Ferenius
28. UK		Nigel Fray

¹ Accompanying experts: Alfred Schramm (Austrian Finanzmarktaufsicht); Kurt Van Raemdonck (Belgian National Bank); Zrinka Pavkovic (Croatian National Bank); Marek Sokol (Czech National Bank); Julia Blunck (BaFin); Michele Lanotte (Banca d'Italia); Olaf Gerritse (De Nederlandsche Bank); Izabella Szaniawska (Polish Financial Supervisory Authority); Jose Rosas (Banco de Portugal); Olena Loboiko (European Commission)

<u>Country</u>	<u>Member</u>	<u>Representative NCB</u>
1. Iceland	Finnur Sveinbjornsson	Kristjana Jonsdottir
2. Liechtenstein		
3. Norway	Morten Baltzersen	Sindre Weme

<u>Observer</u>	<u>Representative</u>
1. SRB	Dominique Laboureix

<u>Other Non-voting Members</u>	<u>Representative</u>
1. SSM	Korbinian Ibel/Sergio Nicoletti Altimari
2. European Commission	Martin Merlin
3. EIOPA	Ivo Karshev
4. ESMA	Verena Ross
5. EFTA Surveillance Authority	Marco Uccelli
6. ESRB	Tuomas Peltonen

EBA Staff

Director of Banking Markets, Innovation and Consumers	Piers Haben
Director of Prudential Regulation and Supervisory Policy	Isabelle Vaillant
Director of Economic Analysis and Statistics	Mario Quagliariello

Philippe Allard; Jonathan Overett Somnier; Dirk Haubrich; Angel Monzon; Meri Rimmanen Olli Castren; Slavka Eley

Tea Eger; Dragan Crnogorac; Marina Cernov; Pillar Gutierrez; Stephane Boivin; Carolin Gardner; Andreas Papaetis; Adrienne Coleton; Carlos Echave-Aboy;