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Board of Supervisors

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Location: teleconference

EBA-Regular Use

Board of Supervisors meeting – Final Minutes

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

1. The Chairperson welcomed the Members of the Board of Supervisors (BoS).

2. One BoS Member declared his conflict of interest with regard to item 12: Selection of the Banking Stakeholder Group. He said that one of the selected candidates represented an institution that has been receiving contributions from their national bank. Therefore, he did not participate in the discussion on item 12. Other Members did not declare any conflict of interest regarding the agenda items.

3. The Chairperson informed that the Minutes of the 28 April 2020 meeting had been approved in the written procedure.

Conclusion

4. The BoS approved the agenda of the meeting.

Agenda item 2: Update from the EBA Chairperson

5. The Chairperson informed the BoS that the first meeting of the Advisory Committee on Proportionality (ACP), co-chaired by Helmut Ettl (FMA) and Mario Quagliariello (EBA Director of Economic Analysis and Statistics Department (EAS)), took place on 19 May. The ACP discussed mainly two points: i) developing a methodology to assess proportionality, and ii) the role of the ACP in the EBA Work Programme. The focus of the ACP would be on the development of a timeline for achieving its goals and on setting up a drafting team.

6. The Chairperson reminded the BoS that given the current situation, the BoS Away Day in Dubrovnik was cancelled and instead, the EBA was planning to hold a webinar to discuss operational exit strategies from the Covid-19 crisis and SupTech solutions. The draft agenda

would be circulated to the Members in the coming days. In this regard, he thanked the Croatian BoS Member and her colleagues for preparation for the Away Day as well as their flexibility and announced that the BoS Away Day in 2021 was planned to take place in Croatia.

7. The Chairperson informed that Dominique Laboureix had been elected as a new Management Board Member and Maarten Gelderman as Chairperson of the Joint Committee Risk Sub-Committee. Finally, he informed about his call with Mr Barnier on the topic of Brexit.

8. One Member suggested to discuss during the Away Day the EBA's work plan and methodology in developing and publishing technical standards and guidelines. The Chairperson noted that there might be more BoS webinars on various topics in the coming months.

Agenda item 3: Risks and vulnerabilities in the EU

9. The Chairperson introduced the item by referring to measures introduced by the EBA in response to the Covid-19 crisis and a positive feedback from the market in this regard.

10. The Director of EAS provided an update on the development of risks and vulnerabilities in the EU banking sector and presented findings of two studies conducted by the EBA staff focusing on the impact of COVID-19 on EU banks and on risks arising from leveraged finance. He mentioned that banks built material capital and liquidity buffers that have allowed them to enter the COVID-19 crisis in a better shape than they entered the Global Financial Crisis. The average common equity tier 1 (CET1) ratio at the end of 2019 was 14.9%, well above the regulatory requirements. Similarly, prior to the pandemic outbreak, banks' liquidity coverage ratios (LCR) were significantly above the regulatory minimum. Banks also made strong use of favourable conditions in wholesale funding markets until February 2020 and frontloaded part of their issuances before primary markets came to a temporary halt. Funding conditions have deteriorated since February 2020 and banks have increased significantly their reliance on central bank funding, including swap lines in foreign currencies. The Director of EAS referred to several impacts of the Covid-19 crisis, in particular related to asset quality and profitability levels. He noted that, while the banking sector is overall resilient, there are pockets of vulnerabilities requiring higher supervisory attention. He concluded by summarising findings of the study on risks arising from leveraged finance, which showed that in addition to leveraged loans concentrated in a few highly interconnected banks, banks held indirect exposures to leveraged finance investors that were not easy to quantify and raised some concerns for supervisors.

11. Several Members provided an update on their national situation, in particular with regard to capital and liquidity issues, measures implemented in response to the Covid-19 crisis and developments on their lending markets. They mentioned that their banks were in a stronger capital position compared to the previous financial crisis and agreed that this was a result of regulatory changes and requirements implemented after that crisis. Some Members mentioned that there is no credit constraint from the supply side, but the demand for credit is low. One Member mentioned to see political risk as the largest risk for banks, for example if

parliament would ask banks for material loan forgiveness and thereby harming their financial position.

12. Some Members acknowledged the need to use the flexibility embedded in the regulation as done in the past weeks. However, they also showed their concerns about banks' willingness to use the released capital buffers to provide additional lending. Some Members argue that the reluctance to use the buffers might have to do with a possible stigmatisation in funding markets while other Members were of the opinion that banks fear rating downgrades and a request for an abrupt restoration of capital buffers after the Covid-19 crisis. Regarding the latter, some Members argued that the buffers should be re-implemented once the economy returns to normal conditions while some others suggested assuring banks the restoration of capital buffers would only take place in a smooth manner.

13. Some Members also noted that even if the banks had enough capital, they have noticed a decrease in lending because banks were exposed to sectors impacted by the Covid-19 crisis. One Member referred to national monetary policy measures and governmental programmes to help the economy and the impacted sectors and explained that the increase in lending was mainly visible to non-financial small and medium-sized companies. The lending was being used to increase their liquidity buffers first and only then to cover impacts of the crisis.

14. Many Members confirmed that they have introduced bans of dividend pay-outs. Some Members stressed the importance not to provide additional flexibility to pay out coupons for AT1 as this would endanger the eligibility of these instruments altogether.

15. In relation to the EBA analysis of leveraged finance, some Members were of the opinion that these exposures should be carefully monitored. However, one of them stressed that the relative size of these exposures were very limited for banks within his jurisdiction.

16. In his response, the Director of EAS highlighted that for the purpose of its analysis, although the EBA thematic note on Covid-19 did not provide an NPL estimation, the share of stage 3 assets could be used as a proxy. Under the most severe credit risk assumptions, this could go as high as 7.7%, a level similar to that reached in the aftermath of the sovereign crisis. He also recalled the relevance of building of capital buffers during the upward phase of the economic cycle to be able to use them during the downturn.

17. The Chairperson concluded by noting that while the Covid-19 was a crisis affecting mainly the real side of economy, and the EBA should be proactive and continue monitoring market developments and provide clarity on the use of buffers and other measures implemented in order to help the economy, the transmission of the negative impact to the financial sector was likely to occur. He stressed that, prior to COVID19, there were also on-going challenges for the banking sector, such as profitability and digitalisation, and that these continued to be present. Finally, he informed that the EBA would update the report on leveraged finance and send it to the BoS for final comments.

Conclusion

18. The BoS agreed with the publication of the report on the leveraged finance after the final round of comments.

Agenda item 4: Preparation of the 2021 Stress test

19. The Chairperson reminded the BoS that the EBA was planning to launch the next Stress test exercise in 2021 and that at its previous meeting, the BoS decided to keep the sample of banks participating in the exercise in line with the 2020 sample. He also clarified that the final approval of the sample will go via written procedure.

20. The Director of EAS continued by adding that while keeping the sample, the BoS agreed to update the sample, if needed, in order to ensure sufficient representativeness of such sample. Based on this agreement, the sample has been reviewed and three new banks have been added. He noted that there might be further changes due to some ongoing acquisition processes. For the latter reason he suggested to frontload the inclusion of some of the banks into the sample for ensuring sufficient representativeness of the sample, if certain banks are dropped, due to the acquisition process.

21. The BoS supported the proposed sample. The ECB Banking Supervision representative noted that frontloading additional banks in the sample is not their preferred approach. Three Members also mentioned that there should not be more banks frontloaded.

22. Several Members stressed that the 2021 exercise would be particularly significant because it would show how the sector dealt with the Covid-19 crisis and how transparent the supervisors were about this impact.

23. The Chairperson concluded that while strongly supporting the proposed sample, the BoS was of the view that a flexible approach should be applied, allowing updates to the sample, depending on how the conditions concerning potential mergers and acquisitions evolve. The Chairperson reiterated the importance of this particular exercise.

24. The item continued with a presentation on the scenario by the ESRB representative. He summarized that while the lower-for-longer narrative seemed still relevant and even more than before the crisis, some Members were of the view that uncertainty about the economic outlook was very high and it was important to maintain flexibility at this stage. Discussions at this stage also included the possibility of adding other scenario(s), addressing the market developments and how to take into account new policy actions, such as payment moratoria and public guarantee schemes.

25. The Members were of the view that there was a very high uncertainty on the evolution of the macroeconomic conditions and that flexibility should be considered both for the narrative as well as the severity of the adverse scenario. They also agreed that the lower-for-longer narrative seemed to be more realistic for the future and a good starting point but that the decision on the narrative should not be concluded yet. Some members raised that the countercyclical aspect of the public measures, including the monetary ones, should be

considered, when deciding about the severity of the adverse scenario. One Member questioned how various challenges, such as a potential second wave of the Covid-19 crisis, lockdowns, or the indebtedness of some countries, would affect the narrative.

26. The ESRB representative noted the concerns and agreed that a flexible approach, which consider latest developments and important events, seemed to be the best way forward in the current situation. He concluded by mentioning that the ESRB was planning to consider a variety of options and that these would be proposed to the BoS for consideration and decision.

27. The Chairperson concluded by stressing that the final scenario had to be agreed by the end of January 2021.

Conclusion

28. The BoS supported the proposed sample of the banks for the 2021 Stress test. The final sample would be confirmed via a written procedure and, thereafter, be published on the EBA website along with the timeline.

Agenda item 5: Sustainable finance – Progress update and EBA response to COM consultation on renewed sustainable finance strategy

29. The Chairperson introduced the item by reminding the BoS that on 8 April 2020, the European Commission (EC) published its consultation on the Renewed Sustainable Finance Strategy.

30. The Director of Banking Markets, Innovation and Consumers Department (BMIC) explained that the EBA was planning to respond to the consultation by 7 July and noted this would not alter our ongoing ESG action plan. He summarised key messages in the EBA's response to the three main areas covered in the consultation paper. With regard to the area of strengthening the foundations for sustainable finance, he said that the EBA supported future authorisation and supervision of verifiers of EU Green Bonds and third party service providers of sustainability ratings. In this context, the EBA also supported further work on labelling of financial products, where relevant. In the area of increasing opportunities to enhance sustainability, the Director of BMIC mentioned that in the EBA's view, there should be a discussion whether relevant legislative initiative might be needed, in particular to assess the interaction between the EU green bonds standard, green covered bonds and securitisation and to assess whether it would be relevant to adjust the EU regulatory framework on securitisation to reflect 'green' specificities. Finally, he referred to the third area in the consultation paper dedicated to reducing and managing climate and environmental risks and noted that the EBA was focusing its response on a need to identify harmful activities ('brown taxonomy') as well as stressing the importance of technical input from the EBA before introducing changes in the prudential framework for institutions.

31. The BoS supported the submission of the response to the consultation paper by the EBA. Several Members emphasised that any prudential treatment should be risk driven and based on empirical foundations noting that historical data may not be the only guide to future risk. They also mentioned that the topic of the brown taxonomy was politically sensitive within their jurisdiction and one Member mentioned that the EBA might have a significant role in this area. One Member emphasised that the EBA should follow its own planned strategy and that its work should not be driven by external/political discussions. Another Member noted the changes in the past three years and proposed to focus first on the effective implementation. [Also, there was a need to accept that we were moving to a different economy, i.e. sustainable, and the risks would be different and hence models would need to evolve.

32. The ECB Banking Supervision representative suggested to further emphasise the role of transparency and disclosures in order to ensure market discipline and also to give more prominence to international networks and the EBA's role in these. One Member was of the view that the focus should be on a real transparency and not only on the disclosure of some metrics. Other Members noted that while labelling was important, a green label did not mean that these products were less risky than others.

33. The Members emphasised the importance of solid empirical foundations to ensure that "green" was not enforced without enough background information. In this regard, one Member reminded that the analysis of a potential risk differential of exposures should precede discussions about a new securitisation regime. Another Member asked for careful consideration to avoid negative impacts on those companies that were trying to be more sustainable. Other Members noted that a taxonomy should not be binary but instead more granular; including "grey" between green and brown.

34. One Member stressed the amount of work and suggested to open a discussion on the staffing, in particular at the national level, to address all the proposed changes.

35. In his reply, the Director of BMIC confirmed that transparency and disclosure were key, including their implementation and also agreed there must be a strong technical grounding for any prudential changes and whilst the EBA would not ask for accelerated timelines we would be ready to provide that evidence as needed.

36. The Chairperson concluded by noting the general support by the BoS and informed that the final draft response would be circulated to the BoS by written procedure.

Conclusion

37. The BoS supported the EBA's approach to responding the EC consultation on renewed sustainable finance strategy and their comments would be captured in the draft to be circulated for a written procedure.

Agenda item 6: EBA response to COM's consultation on the digital finance strategy

38. The Chairperson reminded the BoS that the EC published recently its consultation on a new Digital Finance Strategy for Europe/FinTech Action Plan.

39. The Director of BMIC continued by noting that the draft response was circulated to the BoS for comments via written procedure, and encouraged Members to raise their comments also during the teleconference. He summarised the main points of the EBA's draft response, in particular emphasising the importance of technological neutrality; promoting digital and financial literacy; enhancing multi-disciplinary cooperation and network sharing; and supporting the scaling of RegTech initiatives.

40. The BoS supported the submission of the EBA response to the EC consultation. With regard to RegTech, one Member proposed to develop a list of solutions in order to allow regulators to cross-check various RegTech initiatives. This Member stressed that the regulators had to be prepared to support the industry in leveraging the new solutions and more could be done to help foster cooperation in this regard. A couple of other Members also emphasised a need for greater cooperation among regulatory and supervisory authorities, including for the EBA to support cooperation and coordination between EU authorities in supervising effectively innovative and fast-growing technology-enabled cross-border business (e.g. via new types of college arrangements). One Member recalled the nascent nature of many technologies and emphasised the need for flexibility and caution in the development of frameworks related to new technologies. One Member suggested to add a reference to the EBA's work on sustainable finance and add more emphasis on the identification of risks, for example conflicts of interest and misconduct risks, related to new combinations of activities and delivery mechanisms.

41. In his response, the Director of BMIC noted suggestions related to cooperation and references to the work on sustainable finance.

42. The Chairperson concluded by reminding the BoS to send their written comments by 18 June 2020.

Conclusion

43. The BoS supported the submission of the EBA response to the EC consultation on the digital finance strategy.

Agenda item 7: EBA work on AML

44. The Chairperson introduced the item by clarifying that there were two items for the BoS discussion. The first item related to the public consultation accompanying the AML Action Plan published by the EC in May 2020. The second item focused on a call for advice issued by the

EC, in which the EC asked the EBA to provide technical advice on the further strengthening and harmonisation of the EU's regulatory framework on AML.

45. The Director of BMIC continued by noting that EC asked the EBA for advice on the future EU legal framework and areas for further harmonization. This call for advice was not limited to the AMLD but explicitly included all EU laws that the EBA thought may need to change to strengthen the EU's ML/TF defences. He mentioned that in line with the request, the EBA was planning to respond comprehensively and that the response would include a proposal for amendments to the AMLD; consider the interaction between provisions in other financial services laws and the AMLD, and make recommendations as appropriate.

46. In addition to the call for advice the EBA was planning a more general response to three of the other pillars in the Commission consultation including Pillar 1 on existing implementation, pillar 6 on third country engagement and on pillar 3 relating to a revised supervisory architecture, supervisory models, the scope of obliged entities under the direct supervision, and practicality, efficiency and relevance of leveraging existing infrastructure. The Director of BMIC explained that the EC set out its vision of a comprehensive review of the EU's AML/CFT system, which included a move towards greater harmonisation of the legal framework, a stronger focus on the consistent implementation of that legal framework and the establishment of a single EU AML/CFT supervisor. He explained that the proposal would be for the EBA to reply to the consultation accompanying the Action Plan with an opinion. He talked through specially some of the pros and cons of different options noting points about practicality, efficiency and effectiveness.

47. The BoS supported the EBA's proposal to respond to the consultation and supported the approach to a draft response to the call for advice. Some Members highlighted a need for harmonisation and a single rulebook and one Member was of the view that the EBA should have such powers that it would ensure unified provisions as this was necessary for the EU to progress. Another Member highlighted that a considerable number of measures has been adopted at the EU and national level in the past couple of years and they should be implemented first and only then there should be a discussion about any new measures.

48. The ECB Banking Supervision representative clarified that the ECB was also considering to reply to the consultation and highlighted the cooperation between prudential and AML/CFT supervisors as an important subject.

49. One Member suggested that the EBA, in its response, should further assess the pros and cons of different options and was of the view that the response should be limited to the AMLD.

50. One Member was of the view that the EBA's recommendations should be sufficiently flexible to ensure that the resulting proposal would be suitable for all jurisdictions and at the same time, it should be flexible to address developments and changes on the market.

51. Two Members noted a potential conflict of provisions in the AMLD with provisions in the GDPR and supported the EBA's proposal to analyse this issue.

52. On the supervisory architecture, the views of the BoS were supportive of providing an opinion but mixed on content. In general members agreed the opinion should be neutral, technical and highlighting pros and cons. There were however, differing views on whether supervision and regulation should be combined or separate. In case of an EU centralised body, there were also mixed views among the Members on the role the EBA could play. Some Members were of the view that the creation of a new EU entity was preferred, for example stating their expectation that EBA's prudential tasked would be dwarfed if EBA also became an EU AML/CFT supervisor, whilst others saw efficiencies in using the EBA's infrastructure. Other Members indicated that the proper institutional outcome would depend on the specific mandate and responsibility given to that body. Several Members queried which entities would be under direct supervision of this centralised body and which ones would be under national supervision. In this regard, they highlighted that a risk-based approach should be applied. One Member proposed a staged model and that, while in a short and medium term perspective legislation should be harmonised at the EU level and supervision should be done at national level, in a the long term, a separate EU body should be established, which would supervise also non-financial entities.

53. Given these mixed views on the supervisory architecture, the BoS agreed that the EBA's response should be objective, high-level, include pros and cons of different models, and should avoid any perception of bias towards the EBA.

54. With regard to the scope of entities, the majority of the Members said that the scope should firstly be limited to financial institutions and only later cover also non-financial entities but two Members argued it should cover all entities immediately.

55. The Director of BMIC welcomed the comments and support for a response to the consultation and said that, once discussed with the AMLSC, the EBA's response to the consultation and to the call for advice would be submitted to the BoS for comments.

56. The Chairperson concluded by reiterating that the EBA's responses will be objective and that they would include pros and cons for various approaches.

Conclusion

57. The BoS supported the EBA's proposal to respond to the consultation and supported an objective and high-level response, including the pros and cons of different models. Any perception of bias towards the EBA should be avoided.

Agenda item 8: Brexit update

58. The Chairperson updated the BoS on his bilateral call with Mr Barnier, during which he mentioned that the negotiations between the EU and UK were difficult and that at this stage it was likely that the agreement would not be reached by the deadline. He also mentioned that the UK has communicated that they were not planning to seek extension of the transitional period, so the preparations for a Brexit with no agreement were essential.

59. The Director of BMIC continued by summarising the discussions on the industry preparedness and stressed that whilst the major banks seemed to be adequately prepared for the 'no deal' scenario, the payment and e-money sector continued to be less advanced in their preparations. On the equivalence assessment, he mentioned that the EBA supported the EC with the work on questionnaires and said that the assessment have not been started yet due to the UK not communicating within deadlines. He concluded by referring to the cooperation agreements and MoUs negotiated with the UK and said that the agreed content of the Institutional MoU would need to be updated, once the UK became a third country as the current text was prepared for a no-deal scenario, furthermore the MoU would need to reflect the EBA role in the monitor of the equivalence.

60. The ECB Banking Supervision representative noted that banks were prepared for Brexit. Outgoing banks were generally in good shape and a no-deal Brexit would not cause financial stability concerns unless there are any other major negative events taking place at the same time (e.g. Brexit and COVID shocks together). Some incoming banks had delays in moving toward target operational model also because of Covid-19, but the ECB was discussing with the banks bilaterally. He also pointed that banks indeed try to use various loopholes for the short-term solutions in the national contingency measures that helped to address immediate challenges, but in the longer-term there was a risk of fragmentation and he asked the EC to consider these issues. With respect to cleared derivatives, he noted that they seem to be moving to the EU, but very slowly and equivalence decisions did not help with moving positions. The uncleared derivatives were less of concern. Finally, he asked the EBA to consider a joint communication on the pending issues.

61. The EC representative updated on the development of negotiations and stressed that the free trade agreement did not cover the area of financial services, so institutions need to be prepared for the no deal being an actual scenario. The EC was planning to update readiness notices and publish them in July. He also asked the EBA to communicate publicly on the need to prepare the financial sector for the no deal scenario. On the equivalence, the EC representative said that there was a commitment from the EU side to conduct the assessment, but not to take decision by the end of 2020. The issue in the equivalence assessment was the forward-looking part asking whether the UK was planning to diverge or not from the EU rules in the future and that the UK was very ambiguous in its answers at the moment. He also mentioned that the UK was assessing the EU against their own rules, but this assessment remained unclear. Finally, the EC representative invited the EBA to review its MoU for the end of the transitional period, and also asked the EBA to ensure coordination between the CAs in their own bilateral MoUs.

62. Several Members updated on their national preparedness. A couple of Members said that incoming and outgoing institutions were satisfactory prepared. One Member stressed that the interaction between COVID-19 stress and no deal scenario was quite significant in terms of market volatility. Other Member said that they have identified some delays in the staff transfers because of COVID-19.

63. On national contingency measures, one Member said that those that have been put in place for 2020 have currently lapsed, and there were no plans to extend/introduce new contingency measures for 2021 and beyond. Another Member concurred that they have the similar situation and national contingency measures no longer apply for 2021 if there was 'no deal'.

64. Some Members raised concerns related to the preparedness of payment and e-money institutions and supported further work by the EBA in this regard. They suggested to provide further clarifications and public communication for these types of institutions, especially smaller ones, noting that if those entities were not ready, they cannot offer cross-border services anymore and the impact on their EU customers was not known.

65. With regard to the equivalence, one Member raised the question of the competent authorities (CAs) involvement in the equivalence assessment noting that EIOPA was engaging with the national experts, and the EBA was less active.

66. In his response, the Director of BMIC acknowledged a need for a communication on general preparedness with a special focus on payment and e-money institutions. The EBA would discuss with the EC whether to include also a reference to CCPs in such communication. With regard to the equivalence, he said that the EBA Equivalence Network would be involved as soon as responses from the UK were available.

Conclusion

67. The BoS agreed with a communication to be drafted by the EBA on general preparedness with a particular focus on payment and e-money institutions.

Agenda item 9: EBA response to the European Ombudsman inquiry

68. The Chairperson introduced the item by referring to the BoS conference call on 19 May, during which he briefly mentioned that the Ombudsman had concluded her inquiry into the EBA's decision to allow Adam Farkas to join AFME as its new CEO, and that the Ombudsman had made two findings of maladministration and three recommendations. He also mentioned that he was approached by one MEP on how the EBA was planning to implement the Ombudsman's recommendations and that the original complainant to the Ombudsman had asked the EBA for the documentation relating to our recent decision to forbid Adam from taking up a position at TheCityUK.

69. The EBA Head of Legal Services Unit (Legal) explained that the next stage of the Ombudsman process was for the EBA to respond to the Ombudsman's findings by the end of August. To that end, he summarised the main points that the response would need to cover, including the measures that the EBA was putting in place to address the recommendations.

70. The BoS supported the measures being taken and the overall approach proposed to the response, in particular the need to take a positive approach to the Ombudsman's report. Several Members were of the view that the EBA should aim at reaching a common

understanding of conflict of interest and cool off periods by all its stakeholders and also between other EU institutions. One Member asked for clarification regarding the remuneration during cooling-off periods.

71. The EC representative proposed a minor drafting change related to restrictions imposed on outgoing senior staff, which he submitted to the EBA in writing after the conference call.

72. One Member was concerned that the response might be too defensive and reflected mainly the political aspect on the issue. He mentioned that confidence in the regulatory system and regulators was important and the Member was not too sure the response was hitting the correct note in some parts particularly in relation to maintaining close links with industry. Another Member agreed and supported a more forthcoming response.

73. Some Members were concerned that the EBA might be setting a precedent which could result in a 'one way street', making it basically impossible for staff to change from the public to the private sector and by extension limiting the attractiveness of the public sector for private sector employees. Another Member was of the view that the EBA's response to the Ombudsman's inquiry was not the right tool to solve EU-wide issues like revolving doors.

74. The Head of Legal explained that cooling-off periods were only paid to the extent that the staff member's notice period was used for this purpose, no remuneration existed for any period which went beyond the remaining period of the staff member's contract.

75. The Chairperson concluded by asking the BoS to send their written comments. A draft response would be circulated for detailed comments before being submitted to the Ombudsman.

Conclusion

76. The BoS supported the EBA's work on the response to the European Ombudsman's inquiry, provided that a draft response would be circulated for written comments.

Agenda item 10: First feedback on IFRS9 benchmarking of models

77. The Chairperson introduced the item by referring to the EBA IFRS 9 roadmap and, in particular, to the EBA benchmarking exercise on IFRS 9 and said that in context of this exercise, the EBA launched an ad-hoc data collection in 2019 with the aim of collecting quantitative and qualitative data on the IFRS 9 parameters.

78. The EBA Head of Liquidity, Leverage, Loss Absorbency and Capital Unit (LILLAC) continued by explaining that the objective of the exercise was to better understand different methodologies, models, inputs and scenarios that could lead to inconsistencies in the expected credit losses measurement with potential implications on own funds and regulatory ratios. She noted that the EBA prepared two detailed reports with the quantitative and qualitative analyses accompanied by a chapeau report summarising the main conclusions, which she

briefly presented. She also mentioned that findings in the reports did not include specific elements with reference to the current Covid-19 pandemic, as it related to a previous reference date (31 December 2018), but that the EBA was already including in the templates for the second phase of the exercise of the most relevant aspects as the benchmarking exercise would be a key tool to monitor IFRS 9 models' behaviour and sensitivity to a stressed economic situation for the institutions included in the sample.

79. The BoS supported the work and the internal reports.

Conclusion

80. The BoS agreed with the chapeau report and individual quantitative and qualitative reports and supported the proposed next steps as well as further work on the Covid-19 aspects.

Agenda item 11: Report on COVID-19 policy implementation issues

81. The Chairperson reminded the BoS of measures taken by the EBA, applying the flexibility embedded in the regulatory framework to provide operational relief in response to the Covid-19 pandemic, but maintaining the need for comparable metrics.

82. The EBA Head of Risk-based Metrics Unit (RBM) presented three issues on which the EBA sought feedback from the BoS. Firstly, he summarised the main points from a draft internal implementation report, which gathered questions and answers brought to the attention of the supervisory community regarding the Guidelines on moratoria;, provided a summary of moratoria in place in EU for which the EBA has been notified; listed the Covid-19 related public guarantee schemes (PGSs) while elaborating on aspects related to their eligibility as well as their treatment as a form of credit risk mitigation, and included preliminary clarifications on the identification of Covid-19 triggered downturn period and its incorporation into downturn LGD estimation. He mentioned that the EBA was planning to publish a sanitized version of the report. Secondly, the Head of RBM mentioned that the EBA was proposing to extend the deadline of the Guidelines on moratoria until 30 September 2020 in order address the continuous Covid-19 crisis. Finally, he referred to the proposal to give the EBA a coordinating role in the assessment of Covid-19 related public guarantee schemes (PGS). He noted that while the formal eligibility assessment was and should remain the responsibility of institutions, as prescribed in the CRR, the national features and the broad application of the PGSs created the need for a transparent and sufficiently harmonised approach for their evaluation across the EU.

83. On the publication of the implementation report, the BoS agreed with the publication of the sanitised version after its submission to the BoS for final comments. Other Member was of the view that the report should remain internal as the national measures were regularly changing to flexibly address market developments.

84. With regard to the extension of the deadline, the ECB Banking supervision representative requested to urge the CAs to notify the EBA regarding their compliance. Two Members

proposed extending the deadline even further, at least by the end of 2020. One Member proposed to clarify that this was a final extension and also that the extension applied on the availability of the scheme and not on so called payment holidays. Other Member, in contrary, was of the view that the EBA should remain flexible on further extensions. One Member raised concerns whether the banks were recognising the losses and all consequences of the payment moratoria and other Member said that banks should monitor their portfolios and recognise the losses. One Member requested more information on existing moratoria and what would change for them under the extended deadline.

85. On the PGS and the EBA's role, the ECB Banking Supervision representative was of the view that the EBA should not discuss individual PGS and should focus only on specific problematic features of the PGS that could hamper their capacity to be eligible for CRM under the CRR guarantees and on the Q&As on CRR. Several Members were also of the view that the EBA should not be assessing individual schemes as this was for banks and their respective CAs to assess. A few Members noted that the EBA should provide some clarity and certainty with regard to these schemes.

86. The EC representative supported the publication of the sanitised version as well as the extension of the deadline and suggested that the EBA could publish some features that the PGS should have and/or some general assessment of these schemes. Other Member supported the proposal to agree on the features of these schemes.

87. The Chairperson concluded by noting the BoS' support to publish the sanitised version of the implementation report after the final round of comments and the agreement on the extension of the deadline of the Guidelines on payment moratoria even if some Members were of the view that the deadline should be longer. On the role of the EBA in relation to the PGS, he said that the role would remain in the context of the CRR but would not extend to the approval of individual guarantees and that it should be for the individual entities and the CAs to consider the public guarantee schemes.

Conclusions

88. The BoS agreed in principle with the publication of the sanitised version of the implementation report after its submission to the BoS for final comments via written procedure.

89. The BoS supported the extension of the deadline in the Guidelines on payment moratoria until 30 September 2020.

90. The BoS agreed with the EBA's coordinating role limited to the assessment of COVID-19 related PGS within the context of the CRR

Agenda item 12: Selection of the Banking Stakeholder Group

91. The Chairperson introduced the item by referring to the ESAs review, based on which the EBA had to renew the composition of the Banking Stakeholder Group (BSG). To set up a new BSG, EBA launched a call for expression of interest on 6 March 2020.

92. The EBA Head of Policy Coordination Unit (PAC) informed that the EBA received 92 applications of which approximately 1/3rd were from female candidates. He said that the EBA staff assessed all applications focussing on the professional experience and expertise of the candidates, while trying to maintain an adequate geographical and gender balance. To ensure a certain degree of continuity in the BSG and while considering the fact that the mandate of the current BSG members was terminated before its end, EBA took into account the experiences it had with the current BSG members. Based on these considerations, EBA has drafted a proposal for the composition of the next BSG, including a reserve list for BSG alternates. Finally, the Head of PAC mentioned that the first meeting of the new BSG would be on 7 July. He concluded by informing that the Management Board Members (MB) supported the proposal for the new composition and the reserve list during its meeting on 28 May 2020.

93. The Members did not raise any concerns related to the new composition of the BSG and the reserve list.

94. The Chairperson concluded by noting the BoS' support.

Conclusion

95. The BoS approved the EBA proposal for the composition of the new BSG and its reserve list.

Agenda item 13: 2021 EBA Work programme

96. The Chairperson reminded the BoS that according to the EBA Founding Regulation, the BoS needed to adopt, before 30 September of each year, the work programme for the coming year. He also mentioned that following the creation of an Advisory Committee on Proportionality (ACP), the ACP had to review the work programme.

97. The Head of PAC continued by adding that the annual priorities for 2021 were already defined at the end of 2019 in the context of the Single Programming document 2021. However, in the light of the Covid-19 crisis, the EBA senior management had reviewed the defined strategic priorities and was proposing some changes, the most relevant being a new horizontal priority 'addressing the aftermath of Covid-19'. These changes were approved by the MB at its meeting on 28 May 2020.

98. One Member referred to changes with regard to ESG risks and stressed that given the challenges related to this topic, the EBA should manage expectations on ESG deliverables in 2021. Other Member requested clarification on the parts of the Basel 3 implementation that would result in EBA deliverables in 2021.

99. The Head of PAC explained that the wording on the ESG risks priority was amended to be better aligned with the expected EBA deliverables in 2021. He also underlined that the EBA work on Basel 3 in 2021 will be reflected in the implementation of CRR2/CRD5 but also in the preparatory work for the transposition in the EU of the remaining parts of Basel 3 finalisation.

100. The Chairperson concluded by saying that the final draft work programme would be submitted to the MB for approval at the end of August and subsequently presented at the 16 September 2020 BoS meeting for endorsement.

Conclusion

101. The BoS supported the draft 2021 work programme.

Agenda item 14: Peer reviews work programme

102. The Chairperson introduced the item by highlighting that the work programme was planned for years 2020 – 2021.

103. The Head of PAC continued by presenting peer review topics discussed at the BoS meeting on 19 September 2019 - a peer review on a package of guidelines on non-performing exposures (NPLs); a peer review on a set of Guidelines addressing ICT risks, and a peer review on the Joint ESAs Guidelines on the prudential assessment of the acquisition of qualifying holdings. He mentioned that the BoS had selected the Joint Guidelines for the first peer review, followed by the other two. He also mentioned that the work programme was discussed at the 28 May 2020 MB meeting and that the MB agreed with it.

104. The BoS supported the work programme. One Member raised concerns regarding the Guidelines addressing ICT risks and the Guidelines on the NLPs given the current developments related to the Covid-19 crisis. He proposed to start these peer reviews only in the second half of 2021. Several Members supported this proposal.

105. The Head of PAC clarified that these peer reviews are scheduled for 2021 but with no specific timelines at this stage as it is also necessary to take into account the availability and the workload of Units supporting the work.

106. The Chairperson concluded by noting the support by the BoS as well as the timing concerns.

Conclusion

107. The BoS approved the peer review work programme.

Agenda item 15: AOB

108. The Chairperson informed that the ITS on supervisory reporting had been rejected by the BoS and that several Members requested to add to the agenda of the conference call an item

related to NSFR reporting. Therefore, this item was added to reach a consensus on the approach to NSFR and to approve the ITS on supervisory reporting as a whole.

109. The EBA Head of Reporting, Loans Management, and Transparency Unit (RLMT) continued by noting that the new final draft Implementing Technical Standards on supervisory reporting requirements for institutions (ITS) incorporated the updates introduced by the amending Regulation (EU) 2019/876 ('CRR2'), the amending Regulation (EU) 2019/630 ('Backstop Regulation') and by the alignment with disclosures. This reporting package introduced changes in many different aspect of reporting, namely own funds (including backstop for non-performing exposures), credit risk and counterparty credit risk, large exposures, leverage ratio, NSFR, the new GSIIs reporting and FINREP. The ITS was circulated to the BoS via written procedure on 02 June. However, the outcome was negative since there were four members abstaining/casting a negative vote for different reasons. There was an abstention due to the introduction of the GSIIs reporting, one negative vote due to removal of the F 39.00 template and two negative votes related to the wording in the NSFR part on the interdependent assets and liabilities. She also mentioned that there were significant changes in many different reporting areas and submitting the ITS in separate parts would delay its adoption, because the EC would only amend an already adopted ITS. Therefore, the EBA had to submit to the EC the whole package by 26 June 2020 to meet the legal deadline for leverage ratio reporting. To address the concerns raised by some Members, the Head of RLMT presented two alternatives how to amend the drafting of the ITS on the NSFR annexes. The first option consisted of the EBA interpretation of Article 428f CRR. The second option consisted of a more neutral wording, simply citing the article itself.

110. The views of the BoS were mixed but the majority of the Members supported the second, more neutral, alternative.

111. The Chairperson concluded by noting the mixed views and that a majority of the Members preferred the second alternative, the EBA would amend the ITS reflecting the second alternative and the revised ITS was approved by the BoS. However, the EBA would monitor national implementation of this provision to ensure that there were not any gaps.

112. On a separate item under AOB, the EC representative provided an update on the CMU. He summarized the main points of an independent advice developed by a high-level forum and mentioned that the CMU was key to mobilize the capital market to help the economy to recover. At the same time, he highlighted that banks were expected to have a major role in developments of the capital market in the European Union and encourage the BoS to take a closer look at the report from the High Level Forum.

Conclusion

113. The BoS approved the ITS on supervisory reporting by consensus.

Participants of the Board of Supervisors' conference call

17 June 2020

Chairperson: Jose Manuel Campa

Country	Voting Member/High-Level Alternate[1]	National/Central Bank
1. Austria	Helmut Ettl	Philip Reading
2. Belgium	Jo Swyngedouw	
3. Bulgaria	Radoslav Milenkov	
4. Croatia	Martina Drvar/Sanja Turkovic Petrinic	
5. Cyprus	Stelios Georgakis	
6. Czech Republic	Zuzana Silberová	
7. Denmark	Jesper Berg/Thomas W. Andersen	Peter E. Storgaard
8. Estonia	Andres Kurgpold	Timo Kosenko
9. Finland	Anneli Tuominen	Katja Taipalus
10. France	Dominique Laboureix/Emmanuelle Assouan	
11. Germany	Raimund Roeseler	Erich Loeper
12. Greece	Spyridoula Papagiannidou/ Kyriaki Flesiopoulou	
13. Hungary	Csaba Kandracs	
14. Ireland	Gerry Cross	
15. Italy	Andrea Pilati	
16. Latvia	Santa Purgaile/Ludmila Vojevoda	Vita Pilsuma
17. Lithuania	Marius Jurgilas/Jekaterina Govina	
18. Luxembourg	Martine Wagner	Christian Friedrich
19. Malta	Pierre Paul Gauci	Oliver Bonello
20. Netherlands	Maarten Gelderman/Sandra Wesseling	
21. Poland	Artur Ratasiewicz	Maciej Brzozowski
22. Portugal	Ana Paula Serra	
23. Romania	Nicolae Cinteza	
24. Slovakia	Vladimir Dvoracek/Tatiana Dubinova	
25. Slovenia	Primoz Dolenc/Damjana Iglic	
26. Spain	Angel Estrada/Alberto Rios	
27. Sweden	Karin Lundberg	Camilla Ferenius

Country	Member	Representative NCB
1. Iceland	Finnur Sveinbjörnsson/Unnur Gunnarsdottir	
2. Liechtenstein		
3. Norway	Morten Baltzersen	Sindre Weme

Observer	Representative
1. SRB	Sebastiano Laviola

Other Non-voting Members	Representative

[1] Ingeborg Stuhlbacher, Desiree Lembeck-Kapfer (FMA); Jose Rosas (Banco de Portugal); Julia Blunck, Christian Elbers (BaFin); Michele Lanotte (Bank of Italy); Anne-George Kuzuhara (CSSF); Jonathan Sammut (MFSA); Izabella Szaniawska (PFSA); Petroula Georgaraki, RiccardoDe Bosio, Michael Vincent (SRB); Malte Jahning (ECB);

1.	ECB/SSM/ESRB	Korbinian Ibel, Carmelo Salleo, Édouard Fernandez-Bollo, John Fell
2.	European Commission	Martin Merlin
3.	EIOPA	Kai Kosik
4.	ESMA	Tomas Borovsky
5.	EFTA Surveillance Authority	Marco Uccelli
6.	ESRB	Toumas Peltonen

EBA Staff

Acting Executive Director, Director of Operations	Peter Mihalik
Director of Banking Markets, Innovations and Consumers	Piers Haben
Director of Economic Analysis and Statistics	Mario Quagliariello
Director of Prudential Regulation and Supervisory Policy Department	Isabelle Vaillant

Philippe Allard; Lars Overby; Jonathan Overett Somnier; Meri Rimmanen; Delpine Reymondon

Tea Eger

For the Board od Supervisors

Done at Paris on 22 July 2020

[signed]

José Manuel Campa

EBA Chairperson