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Board of Supervisors

20 April 2022

Location: EBA premises

Board of Supervisors 20 April 2022 – 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) at the EBA premises. He reminded the Members of the conflict of interest policy requirements and asked them whether any of them considered themselves as being in a conflict. No Member declared a conflict of interest.

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

3. Finally, the Chairperson informed the BoS that the Minutes of the BoS conference call on 15 February 2022 have been approved in written procedure.

Conclusion

4. The BoS approved the agenda of the meeting.

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

5. The Chairperson updated the Members on four items.

6. Firstly, the Chairperson summarised his two discussions at the European Parliament (EP) in March. One was a panel discussion on the future shape and remit of AMLA in view of the discussions on the legislative proposal for the new agency in the EP. in his remarks, the ECON rapporteur raised questions on how to shape the design, competences and tools of AMLA for boosting an effective fight against illicit financial flows and enhanced exchange of intelligence information at the EU level. In this regard, the Chairperson also outlined the EBA's progress on handling of data, and the risk of crypto in the context of AML and on capacity building for the new agency. The second discussion was in a panel within an ECON public hearing on the

legislative proposals for the CRR3 and CRD VI. The Chairperson highlighted the overall net positive impact on the economy resulting from the completion of the Basel III regulatory cycle. He focused on special aspects of the proposal - the output floor and the transitory arrangements for mortgages, unrated corporates and derivatives dealers as well as the European adjustments. He also stressed need for timely, consistent and faithful implementation of Basel III in the European Union – also in light of the geopolitical context.

7. Secondly, the Chairperson informed that the Court of Auditors has been conducting its 2021 audit visit and informed that it had just one preliminary finding, which related to conflicts of interest of BoS members. The Court's view was that the BoS rules of procedure do not adequately prevent conflicts of interest from affecting the decision-making process, because although the founding regulation prevents conflicted members from 'participating' in discussions and voting, the rules of procedure enable members to attend the discussion while not participating. The Court's analysis is that inviting the conflicted member to leave the room without exception is the more proportionate tool to avoid appearance of participation. The Court also noted that delays in BoS members submitting conflict declarations could result in reputational risk. The Chairperson also mentioned that the other ESAs have received a similar preliminary finding and that the ESAs were discussing our proposed reply to explain the arrangements agreed by the BoS and the practices followed so far. If the Court nevertheless maintained its finding, a discussion at the BoS level on what steps should be taken to address the finding would be planned.

8. Thirdly, the Chairperson reminded the BoS that on 17 March 2022, the EBA has circulated to the BoS for information a letter by Jesper Berg on the Single rulebook. The same letter was sent to the ESMA and EIOPA Chairpersons. Given the strategic nature of the topic, this matter was planned to be one of the items to be discussed at the EBA Away Day in July.

9. Fourthly, the Chairperson informed that an English law firm has written to the EBA asking to withdraw or amend the recent report on actions taken by supervisors in relation to the Luanda Leaks, due to alleged defamation of its client. The EBA has engaged an English law firm to advise and has rejected the request.

10. The EBA Executive Director updated on three points.

11. Firstly, the Executive Director informed that the Staff Engagement Survey was delivered to 210 staff members between 14 and 28 February 2022. In total, 149 responses were received resulting in a response rate of 71%. The feedback received showed a total of 65% favourable, 19% neutral, and 13% responses. These overall results are slightly more positive than those of the last Staff Engagement Survey conducted in December 2019. This was seen as very encouraging given the evolving environment (pandemic, reorganization) for the organisation in 2020 and 2021. Importantly, improvements were observed in those areas that had the worst rating in 2019.

12. Secondly, the Executive Director informed the BoS that on 24 March 2022, the EC adopted an implementing rule on working time and hybrid working. While the EBA and other Agencies were still discussing a need for a model decision for them, the EBA continued with its current practice of two mandatory days in the office per week, which was close to the future rules.

13. Thirdly, the Executive Director mentioned that the EBA has received a clean opinion from the independent auditor on the 2021 provisional accounts. This was seen as a first indication that the joint accounting function for EBA and ESMA put in place in 2021 was working well.

14. The BoS Members did not raise any comments.

Agenda item 3: Risks and vulnerabilities in the EU

15. The Director of Economic and Risk Analysis Department (ERA) provided an analysis of current risks and vulnerabilities in the EU banking sector. The first part of the presentation focused on short-term risk considerations. In this part he summarised that the macroeconomic situation was expected to deteriorate, and that GDP forecasts continued to be adjusted downwards, partly due to the bleak geopolitical situation, partly due to expected monetary policy responses to high inflation. In relation to the Russian war of aggression against Ukraine, he noted that financial market functioning was widely back to normal with volatility back to pre-war levels. He stressed that despite the high level of commodity price volatility and the resulting margin calls on commodity derivatives, given the limited relative size of exposures, these were not a key risk for the EU banking sector. He said that banks were challenged by the need to comply with the sanctions that have recently been put in place. The ongoing Q&A process indicated that there was significant uncertainty among banks. He pointed out that past experience suggested that implementation costs to ensure compliance with sanctions tend to be low when compared to potential fines. Finally, cyber risk remained elevated, even though no major attack has been reported so far. In the second part of his presentation, focus was on medium-term to longer-term risks. Here the Director of ERA presented a first analysis of the potential impact of the war in Ukraine on EU banks. The analysis was based in part on stand-alone sensitivities to GDP changes from the EU-wide stress test. The impact analysis covered, for reasons of simplification, four selected different risk areas (credit risk, market risk, rising funding costs, sanction compliance and redress costs) that have been identified as possible drivers of capital impact to the banks. He noted that credit risk was expected to increase even without a recession. Market risk – including potential impact from rising funding costs – might add further negative impacts. Bank revenues were expected to decline depending on new lending, rate developments and fee income.

16. Presentations by Italian and Dutch representatives followed.

17. In his presentation, the Italian Member focused on implications of the Russian war of aggression against Ukraine for the Italian banking sector. He noted that the Italian banking system faced the risks generated by war from an overall strengthened position compared to that of late 2019 (less NPLs, higher CET1, profitability at pre-COVID levels). However, the war

posed a wide range of risks for banks, with impacts that were currently uncertain but potentially significant. He also referred to an impact analysis carried out under three scenarios of economic growth and inflation, showing that the war would imply a recession – and corresponding challenges for Italian banks credit quality and profitability - only in the worst-case scenario. Finally, he mentioned that a dedicated taskforce has been set up to assess the impact of crisis on the financial markets, on the banking system, and on the macroeconomic implications.

18. The Dutch representative presented a study that the DNB did on the impact of an upward interest rate shock on the four largest Dutch banks. The impact was measured over a three-year horizon. The main conclusion was that such a shock was expected to negatively affect banks' income and capital. Another important conclusion was that the impact on NII is strongly driven by behavioural assumptions.

19. Several Members updated on their national developments. Members widely welcomed the EBA's analysis of the potential impact of the war in Ukraine on EU banks. A few Members noted that more detailed explanations and additional assumptions would be useful. One Member noted the severity of some of the assumptions and understood they should be considered altogether; he also asked that it should not be published at this stage given the high uncertainty of developments. A number of Members stressed the uncertainty of future developments. Another Member said that maybe quicker replacements of Russian gas and oil supplies were not considered in the analysis and for some countries, this might be important as they may fully rely on them. One Member said that additional aspects, such as Covid-19 in China etc. also posed risks. With regard to the sanction breaches and their impact, one Member asked for a cautious approach. Other Members said that in the Baltic area, banks completely cut off all Russian and Belarusian connections and one of the reasons was also the cost of sanctions and their implementation. One Member noted that they have noticed a slight deterioration in the asset quality of those companies that use the moratoria programmes and that they were monitoring whether these have been impacted by the impacts of the war as well and how. Other Member said that they have already observed direct impacts of the war on the borrowers' credit risk but were more concerned about the second-round effects - rising prices of energy products, limited profitability of some companies, dependency on agriculture and energy supply and potential shutdowns of economies and supply shortages. He also stressed the next round of the Covid-19 pandemic in China which might have world-wide impact. One Member cautioned against taking conclusions in analysis of short-term impacts arising from spread widening as regards amortised cost positions. Other Member informed that they were planning to publish results of their national top-down stress test with both adverse and severe scenarios. A number of Members highlighted a risk of cyber-attacks even if this risk has not materialised so far.

20. The ESRB representative welcomed the impact study presented by the EBA and asked if further analysis would be done. He acknowledged that cyber risks were closely monitored by the ESRB and reflected on current market issues, such as supply chain problems linked to increasing Covid-19 pandemic in China, high inflation and slow growth, increased residential estate

market and high interest rates. He noted that this situation might last for a long time and therefore, any developments were very uncertain.

21. The ECB Banking supervision representative summarised that it was too early to observe the deterioration directly connected to the war. The banks should identify the most vulnerable clients, provide adequate and timely support - where needed - and avoid "a wait and see" approach. Also, they should continue identifying and categorising their exposures. The focus of the ECB was on the impact of second and third round effects that could run into adverse impact of the overall macroeconomic framework. She also mentioned that there could be an impact on the funding costs from the war and that the ECB was closely monitoring this as well. The ECB has been conducting a vulnerability top-down stress test in relation to the war of aggression against Ukraine and the results would be published in the coming weeks. Finally, she noted that the implementation of the sanctions has been challenging for the banks and that the ECB, even if no major cyber-attacks have been reported, has been asking the banks to improve their overall operational resilience.

22. The ECB representative questioned whether trade insurance was considered as such in the EBA's analysis and its impact. He also informed that the ECB recently performed an exercise on interest rate shocks to the significant institutions. The main findings of the exercise showed moderate positive impact on the banking sector's profitability and a negative impact on the sector's solvency.

23. In this reply, the Director of ERA clarified that trade insurance was not captured in the analysis as market developments indicated that the supply of trade insurance for Russian trade was low and declining. He concurred with the remark on amortised cost positions in the spread widening analysis. He also clarified that there was no intention to publish the analysis.

24. The Chairperson concluded by noting the comments and stressed that the banking sector needed to be prepared and proactive to deal with the impacts of the current developments.

Agenda item 4: EBA statement on the financial inclusion of refugees from Ukraine

25. The Chairperson introduced the item by stressing that after Russia's invasion of Ukraine, millions of people have found refuge in EU Member States and they needed access to at least basic financial products and services to participate in EU society. Therefore, there was a merit in the EBA communicating to clarify how financial institutions could provide displaced persons from Ukraine with access to financial products and services under the existing legal framework, while compliance with AML/CFT obligations should not lead to the financial exclusion of legitimate customers.

26. The EBA Director of Innovation, Conduct and Consumers Department (ICC) continued by summarising an EBA statement which reflected content from the EBA's existing guidelines and opinions and called on financial institutions to ensure that compliance with the EU's restrictive

measures regime did not lead to unwarranted de-risking. The statement also clarified what financial institutions and supervisors could do to protect vulnerable persons from abuse by criminals and explains how to manage sanctions risks and financial inclusion concerns.

27. The BoS supported the timely publication of the statement. Several Members proposed drafting changes to clearly mention what banks were able to do in support of the refugees and to avoid overly legalistic language. One Member also stressed that not all CAs might have all the competencies, in particular on terrorism financing matters. One Member noted that they have observed difficulties in exchanging Ukrainian currency to EUR. Other Member informed that they have issued a national guidance for banks based on which the banks did not need to request passports from Ukrainian refugees for the purpose of opening a bank account. Another Member said that their banks could accept any form of residence permit for the opening of the accounts.

28. The Director of ICC explained that there were three phases that the EBA observed – opening of the accounts; monitoring (including from the financial crime perspective), and communicating with relevant authorities, and that these should be reflected in the statement. She also noted that human trafficking has not been an issue that the EBA had focused on so far but that concern over it, and the role of financial institutions in helping to prevent and detect it, was on the rise and that the EBA was closely monitoring all relevant developments.

29. The Chairperson concluded by noting the BoS' unanimous support with the publication of the statement. He agreed that the opening lines should be more explicit and asked the BoS to send their comments by the end of 21 April after which the EBA would prepare an updated version for a final fatal flaw followed by the publication in the week of 25 April 2022.

Conclusion

30. The BoS approved the publication of the Statement on financial inclusion in the context of Russia's invasion of Ukraine.

Agenda item 5: EU-wide Stress test

31. The Chairperson clarified that there were two topics for the BoS discussion - sample criteria, including a short update on the bottom-up methodology; and the validation of the two ECB top-down models, for NII and NFCI, and their potential integration into the EU-wide stress test as part of the hybrid approach.

32. On the sample, the Director of ERA noted that the sample criteria and the sample have stayed stable for the past three stress test exercises. However, the EU-wide stress test would benefit from an enlargement of the sample. This would allow to identify potential risk pockets in mid-sized banks. In addition, increased coverage would provide a better transparency to the market and improve banks' risk management tools and practices. Finally, the European Court of Auditors (ECA) have raised questions as to the appropriateness of the sample size. Therefore, the EBA's proposal was to add a criterion for ex-ante identification of business

models that should not be included in the sample; drop the threshold that limited including additional banks to the sample (currently at EUR 100bn) and increase the minimum coverage of the EU banking sector as the primary proposal (from the current level of 70% in terms of total assets to 75%) or introduce a country-based criterion (minimum 70%).

33. The BoS supported the EBA's proposal to enlarge the sample. Several Members preferred to increase the coverage for the EU banking sector rather than introducing a country-specific criterion. Two Members referred to the findings of the ECA and said that banks with high NPL ratio should be included in the sample. Two Members asked for a sound explanation to the ECA of how the findings have been addressed. A number of Members asked for proportionality elements and simplified procedures for smaller banks and one Member also suggested to link the final decision with more clarity on the hybrid approach

34. The ECB Banking supervision representative supported the EBA's proposal but asked for introduction of some elements of proportionality for smaller banks.

35. The ESRB representative supported the enlarged sample and wonder about the overlap with OSII banks .

36. The Chairperson concluded by reminding the BoS that there was a number of findings of the ECA on the sample, including better geographical coverage and specific sectors. He noted the BoS's support for enlarging the sample at the EU level as well as for introduction of some elements of proportionality for smaller banks.

37. The Director of ERA continued by reminding the BoS that at the December 2021 BoS meeting the EBA presented a plan for assessing the ECB models for projecting NII and NFCI in the EU-wide stress test. The BoS decided that the validation results would be presented at the April BoS meeting and based on this assessment, the BoS would decide on the approval of the models. As an alternative, the BoS would be presented with the possibility to use top-down models to challenge/test the results of the bottom-up approach. He also mentioned that the draft EU-wide stress test methodology, including the possible introduction of top-down models, would need to be finalised by the end of May in order to be approved by the BoS at the June BoS meeting and published afterwards for the industry consultation. If the models were approved in April, further work would be required to integrate the models into the current bottom-up methodology and to agree on the framework for treating outliers. The Director of ERA stressed that the short timeline for performing the validation was based on the assumption that the validation would confirm that the models were ready for use in the EU wide stress test or would only require small changes before they could be implemented. However, the validation resulted in several findings and recommendations pointing to the need to further improve the models. With regard to NFCI, the main challenge was that the estimation sample did not contain data for non-SSM banks. Therefore, the EBA considered two options – 1) Option 1: Continue working on improving the NFCI model during 2022 with the aim of implementing it in the 2025 EU-wide stress test; 2) Option 2: Working on addressing the recommendations and come back to the BoS to decide whether the model could be

approved. Under this option an extraordinary BoS would likely have to be organised in May to discuss whether the NFCI model could be used for the 2023 stress test. Moreover, the STTF would need to work in parallel to agree on the outlier treatment and on integrating the centralised NFCI part into the methodology. With regard to NII, the findings of the validation were connected to model design choices, model performance, statistical soundness and testing results and would require larger revision which could not be done in a short period of time. Again, the EBA considered two options – 1) Option 1: Continue working on improving the NII model during 2022 with the aim of fully implementing them in the 2025 EU-wide stress test; 2) Option 2: Use the existing model without any improvements in the 2023 EU-wide stress test, while agreeing on the treatment of outliers, which would serve as an overlay, and on the interaction with the current methodology. While for the NFCI, the EBA's proposal was to support option 2, for NII, it was option 1.

38. The Members had split views. Some Members raised their concerns related to the progress of the work; noting the efficiency benefits of top-down models and mentioning that a model can never be perfect Two Members referred to the reputational risk of not moving ahead with the centralization of the two risk areas, while other Members stressed that changes to the exercises should be introduced in a careful way. One Member questioned whether the EBA had an action plan for the next steps. A number of Members stressed that as one of the aims for the stress test exercise was to increase transparency and relevance, the work should be further postponed until the models were more suited for the needs of the EU-wide the stress test. With regard to the options, a number of Members supported option 2 for each of the models. Other Members supported option 2 for NFCI and option 1 for NII. A few Members referred to introducing ex -post overlays to the outcomes of the models and one Member noted that these were always needed and should be a part of the methodology. This Member also said that there should be a clearer ownership of models for the EBA as this was relevant mainly for non-SSM countries.

39. The ECB Banking supervision representative supported centralization efforts for the 2023 exercise for both models.

40. The ECB representative pointed that the models would be used by the ECB for quality assurance purposes.

41. The Chairperson concluded by noting the comments and said that the progress was slower than expected. He also noted support for the general direction of using top-down models, but split views regarding the 2023 ST exercise and said that the EBA had to continue working on both models and should have a broader work plan for years 2023 – 2025. He raised concerns related to communication aspects and said that, based on the progress made on addressing the validation findings for the NFCI model in the next weeks, the EBA would organise an extraordinary BoS conference call in May.

Conclusion

42. The BoS supported the EBA's proposal for enlarging of the sample at the EU level and to introduce some elements of proportionality for smaller banks.

43. The validation work for the NFCI model should continue on the expectation of making a final decision on its use prior to the finalization and approval of the stress test methodology.

Agenda item 6: EBA advice on the macroprudential review

44. The Chairperson introduced the item by reminding the BoS that in June 2021, the EBA has been invited to respond to the EC's Call for Advice on the review of the macroprudential framework (CfA) by 31 March 2022. The advice called for specific changes to the current framework with the aim to enhance the macroprudential framework.

45. The EBA Head of Risks Analysis and Stress Testing Unit (RAST) summarised the EBA's response to the CfA. He explained that the response includes four major aspects: (1) overall design and functioning of the buffer framework, (2) missing or obsolete instruments, (3) internal market considerations and (4) global risks and that the recommendations were guided by lessons learned since the inception of the macroprudential framework. For each of the aspects, the Head of RAST sketched out the EBA proposals. With regards to the next steps, he clarified that the EC was informed that the EBA's response would be delayed and that subject to the BoS approval, the response would be submitted as soon as possible to the EC.

46. The ESRB representative informed that they submitted their response to the CfA in March 2022 and suggested a small change to clarify that reflecting current EBA mandates, tasks and information, the EBA's CfA reply did not cover borrower-based measures. It was also noted that as not all instruments were usable in all countries the ESRB perceive a need for amendments of the EU framework.

47. There was general agreement and support among BoS Members to the EBA reply. A majority of the Members also supported the ESRB proposal to include a brief reference to borrower-based measures. Several Members expressed the view that Member states should have flexibility and possibility to decide whether to use soft law or mandatory requirements in the legislation; and that they should be able to maintain tools and definitions already in place. Some Members mentioned that from a practical perspective a clear differentiation between macro- and microprudential measures may not always exist. One Member asked to revise the Article 458 CRR authorization proposal and another Member asked for inclusion of a footnote with a minority view on the OSII leverage ratio buffer.

48. The SRB representative was of the view that overlap of buffers should be avoided in the EU framework but acknowledged that it was too early to make an assessment on this issue.

49. The ECB Banking supervision representative supported the EBA's response.

50. The EC representative explained that the EC would establish work on borrower-based measures in the coming months. Therefore, while supporting the inclusion of the reference to

borrower-based measures in the EBA's response, he stressed that this should not result in a further delay of the submission of the EBA's response to the CfA to the EC.

51. The Chairperson concluded by noting the EBA's general support and agreed that the borrower-based measures were useful tools used by CAs. He said that the EBA would address the comments on borrower-based measures and send the revised version of the reply to the BoS before submission to the EC.

Conclusion

52. The BoS approved the EBA response to the EC Call for Advice on the review of the macroprudential framework by consensus.

Agenda item 7: Discussion paper on the role of environmental risk in prudential framework

53. The Chairperson introduced the item by stressing the importance of the topic and noted that after the publication of the discussion note, the EBA would draft a report by mid-2023.

54. The EBA Head of ESG Risks Unit (ESGR) continued by summarising that the EBA has received mandates under Article 501c CRR and Article 34 IFR which related to the relationship between ESG and Pillar 1. They required the EBA to assess whether a dedicated prudential treatment of exposures related to assets or activities that were substantially associated with environmental and/or social objectives / subject to environmental and/or social impacts would be justified. She clarified that while the mandates covered both environmental and social aspects, the discussion paper focused on exposures related to assets and activities substantially associated with environmental objectives/impacts. Both environmental and social aspects would be considered in the next phase of the analysis and the discussion paper would welcome input on possible methodologies and available evidence which may inform this analysis. With regards to the content, the Head of ESGR mentioned that the discussion paper contained an overview of the specific elements of the Pillar 1 own funds requirements and how they interact with environmental risks. It focused specifically on those elements most likely to be affected by environmental risk drivers. Furthermore, the discussion paper pointed to the forward-looking nature of environmental risks and put up for discussion the use of forward-looking methodologies. She concluded by saying that the discussion paper was explorative in nature and deliberately drew no conclusions, which would be drawn up in the final report, including based on stakeholder feedback. Further analysis would reflect ongoing developments under Pillar 2 and 3 and the macroprudential framework in order to design the most suitable prudential response to environmental and social risks. Developments at the international level – in particular by BCBS – would be taken into account to ensure broad consistency.

55. The BoS supported the work. While majority of the Members welcomed the discussion paper and assessed it as well-balanced, some Members stressed that no conclusions should be drawn just yet as this was a difficult topic which needed further analysis and consistency at

international level. One Member informed that since 2019, they have been mandated to support the governmental sustainable work and had a dedicated department for the green programme. Other Member said that holistic analysis should be done as well and all tools currently available should be considered in this work, such as capital buffers calibrated with scenario analysis and stress test. A few Members mentioned that the aspect of double materiality could be further pursued, others mentioned the importance of concentration risk and welcomed inclusion of this topic in the paper. One Member questioned how data availability could be improved by regulators and institutions and suggested rephrasing question number 4 in the discussion paper (How can availability of meaningful and comparable data be improved? What specific actions would you suggest from regulators, supervisors and institutions to achieve this improvement). A number of Members were of the view that environmental issues should be incorporated into the existing risk management framework.

56. The ECB banking supervision representative noted that reporting requirements would help to obtain necessary data and also mentioned that they would submit some technical comments after the meeting.

57. The EC representative highlighted the challenges of the topic and also said that no conclusions were needed at this stage. He noted that Pillar 2 could be useful but was not a consistent and comparable level playing field. He supported further work on the forward-looking aspects and said that a concept on double-materiality which is a key in the EU ESG framework should be further explored. He also mentioned that the EC would send technical comments after the meeting.

58. The Chairperson concluded by noting the BoS's support for publication and asked the BoS to send their written comments by 22 April 2022.

Conclusion

59. The BoS approved the publication of the Discussion paper on the role of environmental risk in prudential framework by consensus.

Agenda item 8: EBA Draft report on the Peer review on supervision of NPE management

60. The Chairperson introduced the item by reminding the Members that as part of the Work Plan 2020-2021, the EBA has conducted a Peer review on the supervision of management of NPE, and by virtue of it also on the implementation of the EBA Guidelines on the management of non-performing and forborne exposures. The Ad Hoc Peer Review Committee has prepared a draft report summarising the outcomes of the NPE peer review submitted to the BoS for comments which would be followed by a separate vote by written procedure.

61. Before the discussion on the report, the Head of Legal and Compliance Unit (LC) thanked Members for their recent approval of the PSD2 peer review mandate, noting that the proposed

composition for the peer review committee would also be circulated for approval shortly. With regard to the timelines, the Head of LC clarified that the objective was to launch approval of the peer review report before the end of the year, and that CAs' cooperation in this respect would be very welcome in meeting the tight timeline required to achieve this.

62. The Chair of Ad-hoc peer review committee continued by presenting the key findings of the peer review of the supervision of management of NPE that aimed at understanding the implementation of the EBA Guidelines on the management of non-performing and forborne exposures by the prudential and consumer protection authorities, as well as the readiness of the CAs (and to the extent possible of institutions) for dealing with potential post-COVID-19 NPE increases. The results of the peer review were quite positive, as the CAs across the EU have applied risk-based approach to the supervision of NPE management by institutions. The rigour and comprehensiveness of the supervisory review and supervisory resources allocated to these tasks by the CAs correlated with the magnitude of the level of NPE in the jurisdiction or institutions. The EBA Guidelines on management of non-performing and forborne exposures have been largely implemented by the authorities and applied in their supervisory practices. The Chair of Ad-hoc peer review committee noted that no particular problems or significant concerns have been identified for any of the authorities, and therefore there were no authority-specific recommendations in the peer review report. The recommendations were mostly around implementing some good observed practices and for the EBA to incorporate number of items into the Guidelines on management of non-performing and forborne exposures, when those come for the regular review.

63. The BoS supported the work. Several Members welcomed the report and its findings and stressed the importance of the lessons learnt from the peer review and good supervisory practices in NPE supervision identified being considered by all authorities and not lost over time.

64. The Chairperson concluded by appreciating the work done and positive feedback from the BoS Members, noting that in accordance with the EBA Peer Review methodology the BoS would be asked to approve the final peer review report by a separate vote through a written procedure.

Agenda item 9: Standing Committees mandates

65. The Chairperson reminded the Members that at the December 2021 meeting, there was a discussion about the EBA's staff proposal on reorganisation of the standing committees in order to improve their efficiency, consistency, and focus. The BoS supported the EBA's proposal and as a next step, the EBA staff updated the mandates of the standing committees to be aligned with their new tasks and these mandates were submitted to the BoS for approval at the meeting.

66. The EBA Head of Governance and External Affairs Unit (GEA) continued by mentioning that the mandates were discussed withing the standing committees which provided useful comments.

Furthermore, the EBA was proposing to harmonise the procedure for appointing chairpersons of the standing committees and given that the current chairpersons of SCREPOL, SUPRISC and SCREDAT were willing to continue their mandate, the EBA suggested to appoint them for two years as of 20 April 2022. Moreover, he explained that the approval of the BOS was sought to formally appoint Meri Rimmanen and Marilin Pikaro, EBA Directors, as co-chairs of SCREDAT and SCCONFIN and that a call for applications to SCCONFIN will be launched soon. Finally, he referred to the discussion in December 2021 related to standing committees' substructures and said that throughout 2022, the EBA was planning to conduct an assessment of the existing substructures with a view to identify potential synergies through restructuring their number and/or organisation.

67. The BoS supported the EBA's proposals on the mandates and appointment of the chairpersons. One Member noted that the wording on Q&As approval by SCs was not similar in all the mandates. Other Member said that there was no reference to the integrated reporting project or cost of compliance in the SCREDAT mandate. Some Members suggested the participation of more than one representative in SCConFin given its broad scope from consumer protection to payments while another Member made a similar suggestion for a second representative in all relevant standing committees during payments agenda items. One Member questioned the governance of subgroups which would be reporting to various standing committees. This Member also questioned the version of the SCConFin mandate which was missing some recent updates and asked for more nuanced reference to technological innovation to be included in this mandate. Finally, the Member asked whether the taskforces that were reporting directly to the BoS until now (e.g. Stress Test Task Force) should be now reporting to standing committees.

68. In his response, the Head of GEA clarified that there is a single process for approving Q&As at SCs level which will be reflected consistently in the SCs mandates. With regard to the SCREDAT mandate, he explained that both the integrated reporting as well as cost of compliance were covered in more general terms. On the representation in SCConFin, the Head of GEA explained that there is a possibility to adjust the representation per CA to the topic on the agenda but there should not be two representatives appointed on a permanent basis. Regarding the status of task force currently reporting to the BOS, he explained that from now on all substructures, including taskforces, were to be reporting to relevant standing committees based on the topic. Finally, he confirmed that the SCConFin mandate will be reviewed and updated to take into account possible missing parts.

69. The BoS did not raise any concerns with regard to the chairpersons.

70. On the substructures, the Chairperson asked about next steps. The Head of GEA said that the standing committees would review the list of substructures and the EBA could provide report/lessons learn on their performance.

71. The Chairperson concluded by noting the BoS' support for the mandates and appointment of the chairpersons.

Conclusion

72. The BoS approved the amended mandates of SCREPOL, SUPRISC, SCREDAT and SCConFin by consensus.

73. The BoS approved the appointment of Gerry Cross, Isabelle Vaillant, Michael Hysek, Jacob Gyntelberg, Andrea Pilati, Meri Rimmanen and Marilin Pikaro as chairpersons for SCREPOL, SUPRISC, SCREDAT and SCConFin for two years as of 20 April 2022 by consensus.

Agenda item 10: EBA Report on convergence of supervisory practices in 2021

74. The Chairperson introduced the item by noting that one of the key mandates of the EBA was to actively foster supervisory convergence across the internal market and in this context, it must report to the European Parliament and the Council on the degree of convergence of supervisory practices on an annual basis. To that end, the EBA drafted the 2021 Report on the convergence of supervisory practices that summarised the EBA observations on a number of topics in the context of the supervisory review and the yearly convergence cycle, including convergence observed in supervisory colleges.

75. The EBA Head of Supervisory Review, Recovery and Resolution Unit (SRRR) continued by clarifying that the Report summarised how the EBA pursued supervisory convergence in 2021 in the context of the SREP and ongoing supervision via the various convergence tools under its disposal, and the EBA's main observations on the respective developments and conclusions. The 2021 Convergence Plan, still driven by the implications of the COVID-19 pandemic, identified four key topics, which also served as the basis for the assessment of the degree of the convergence in supervisory practices: 1) Asset quality and credit risk management; 2) ICT and security risk, operational resilience; 3) Profitability and business model, and 4) Capital and liability management. He mentioned that the Report also included the EBA`s observations in the context of supervisory colleges, both on the implementation of the key topics and also on college interactions, organisational arrangements, and key deliverables; the EBA's assessment regarding the convergence in the application of P2R and P2G, providing an analysis based on a recent data collection; and the main developments in the EBA policy work concerning P2 and ongoing supervision, of which the update of the SREP Guidelines was the most relevant. Training initiatives undertaken in 2021 were also key to deliver on the EBA`s supervisory convergence mandate. Finally, he invited the BoS to share their views on how the current crisis in Ukraine was impacting their priorities and supervisory examination programmes in 2022 and onwards.

76. The BoS supported the work. One Member reflected on the current developments and said that their supervisory priorities related to asset quality, risk categorization and models have not changed since the outbreak of the Covid-19 practices, but some elements were added, and they have introduced more intense monitoring of liquidity of banks as well as intra-group exposures. Other Member referred to the P2R and P2G graphs figures and said that there was

no uniform distribution of banking structures and banking risks across the Member States. He considered that it could be useful to look at the business models.

77. The ECB Banking supervision representative supported the work and said that they were planning to send some drafting comments after the meeting.

78. The Chairperson concluded by noting the support of the BoS.

Conclusion

79. The BoS approved EBA Report on convergence of supervisory practices in 2021 by consensus and for publication.

Agenda item 11: Supervisory measures related to Covid-19 crisis – State of play

80. The Chairperson introduced the item by stressing that the outbreak of the COVID-19 pandemic prompted the EBA and supervisors to coordinate efforts to alleviate the burden for banks, including allowing for some additional flexibility and relief in the context of the pandemic. The EBA followed the impact and the application of the various support measures initiated by CAs, reported on various aspects in its regular risk assessment reports, and now considered the time ripe for a general stock take on the state of play in and phasing out of the supervisory support measures. This stock-take solely focused on supervisory support measures and did not concern public or other support measures (like PGS or moratoria). Nevertheless, those were also under the EBA's assessment. He also mentioned that the submitted note was as an internal document at this stage whilst a broader summary of the path and exit from Covid-19 measures would have merit in being reviewed in light of a final EBA monitoring report.

81. The EBA Director of Prudential Regulation and Supervisory Policy Department (PRSP) continued by briefly summarising the note and said that it included an overview of the main supervisory support measures that were initiated at the onset of the pandemic; and provided a high-level overview of the main observations on the use of the various support measures and reports on the state of play in and the phasing out of the various supervisory support measures CAs granted. She reported that the measures taken varied, were flexible and coordination was possible.

82. The BoS supported the work. Many Members stressed the usefulness of this work which also showed that the banking sector was not greatly impacted by the Covid-19 pandemic, and it was well prepared. Some Members questioned the usability of buffers and asked what the next steps should be given that the buffers were not used by the banks during the pandemic and also because there were indications that their usability was not as good as expected. One Member informed that the Basel Committee has been working on these topics as well and that interaction at the EU and international level would be needed. Some Members informed that they would send technical comments in writing. Another Member mentioned that it would be

worthwhile to look back when all the measures taken by the government have been phased out, and include relevant government measures in the scope of the evaluation.

83. The ECB Banking supervision representative supported the note as an internal document. He also noted that the SSM put in place timely and efficient supervisory measures and in the meantime, almost all have been phased out.

84. The Chairperson reminded the BoS that two years ago, the BoS was discussing which tools and measures could be used to address the impacts of the Covid-19 pandemic. Buffers were included in the system and fortunately, they were not massively used by the banks, but this also meant that the regulatory community could not actually test the measures implemented to address the pandemic.

85. The Director of PRSP noted that the work should conclude with a last monitoring report on supervisory and policy measures. She also said that there was a specific set-up in the EU with regard to the buffers and that it could be a topic for further discussions, including clarification on some interactions with legal provisions. She concluded that the EBA could start working on these issues in the second half of 2022.

86. The Chairperson concluded by agreeing that the EBA could draft a final report on the Covid-related supervisory measures, including a broader reflection of measures, their monitoring, exit strategies and operational relief by the end of 2022.

Agenda item 12: EU RCAP on NSFR and LEX – Final findings

87. The Chairperson reminded the BoS than the work on the EU RCAP on the net stable funding ratio and the large exposures regime had been restarted in December 2021. The RCAP had been launched in December 2019 but was suspended in March 2020 due to Covid-19 pandemic. During these months, there have been productive discussions between the Assessment Team, the EC and the EBA (which in particular provided quantitative necessary data to the Assessment Team for the materiality analysis). At the end of March 2022, the Assessment Team concluded its analysis and presented it to the EC and the EBA with tentative final overall grades.

88. The EBA Head of Liquidity, Leverage, Loss Absorbency and Capital Unit (LILLAC) continued by explaining the methodology and sample of banks for the exercise. She also summarised the main findings separately for NSFR and LEX.

89. The BoS supported the outcome of the assessment. One Member welcomed the work done in achieving the final overall grades and stressed its importance.

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

Agenda item 13: AOB - A) Harmonised reporting requirements for sanctions

91. The Chairperson introduced the topic explaining that the EBA has been asked by the EC to find a convergent approach to the reporting of deposits under the Russian and Belarusian Sanctions Regulation.

92. The EC representative confirmed the request that has been set out in the letter shared with the BoS stressing that the EC has seen a natural role for the EBA considering its experience and the fact that it brought together banking supervisors, in setting up the best possible reporting template. Having a convergent approach across the EU was important to avoid overlapping and conflicting reporting requirements especially for the benefit of cross-border banks. He further noted that the EC has already provided some indications for the required information and interpretations in the letter to the EBA and stood ready to support and cooperate with the EBA in order to finalise the reporting template swiftly.

93. The Director of DART noted that the EBA has done preliminary assessment of the request and could support the EC in developing template and instructions without any formal supporting tools, as this template would not be part of the EBA supervisory reporting framework. Such reporting template and instructions could be done very quickly also recognising the forthcoming reporting date of 27 May. She further pointed out that the EBA could also act as a central hub for collecting Q&A regarding this reporting obligation and channeling them to the EC.

94. Many BoS Members expressed their support for the proposed way forward and helping the EC in developing a deposit reporting template and instructions noting that this template should by no means be associated with supervisory reporting and should be done very quickly considering that the authorities would need to translate them and introduce some necessary adaptations for their markets, and this all needed to be done well ahead on the 27 May deadline. Some Members also warned that the initial reporting in May may not be perfect in terms of data quality and may require follow up with the institutions. Several Members stressed the importance of being clear on the responsibilities of the authorities for monitoring of the sanctions within the Member States noting that the authorities around the EBA table were not necessarily the same as sanctions monitoring authorities that would be recipients of the reporting required by the Sanctions Regulation, so the EBA and its competent authorities may act only as intermediaries in the developing of the templates. One Member cautioned that whilst developing the templates the EBA may be entering into a territory of defining or interpreting the Sanctions Regulations that was not in its remit. Other Member noted that the reporting should also consider GDPR aspects. Another Member asked about the EC plans regarding the use of the reported data (as according to the Sanctions Regulation one of the possible reporting lines form the banks is to the EC).

95. In his response, the EC representative mentioned that they referred to the EBA as this was the authority dealing with the supervision of banks and experience in reporting, and whilst the

authorities responsible for the monitoring of sanctions in each Member State may be different, he would expect the EBA CAs to reach out to the appropriate sanctions authorities at the national level. In terms of the definitions and interpretations, they were mentioned in the sanctions regulations and FAQ and the EBA was not expected to provide any own interpretation. He also noted that at this stage the EC was not planning to develop any data hub for sanctions reporting.

96. The Director of DART confirmed that the EBA would work very closely with the EC and would not offer from own side any interpretations or definitions rather than those already stated in the Sanctions Regulations and the Commission FAQ.

97. The Chairperson concluded by noting the comments and said that the EBA would work on developing the reporting templates and associated instructions to be made available for the use by the EC and the authorities responsible for the monitoring of the sanctions.

Agenda item 13: AOB - B) Progress reports

98. The Chairperson informed the BoS that one Member asked to amend the AMLSC Progress reports, in particularly the reference to the “New AML/CFT Colleges strategy” and tax regimes. He was of the view that the reference to “tax regimes” was too broad since the AML/CFT colleges were not the adequate forum for EBA to review/discuss “tax regimes”. The Chairperson agreed with the comment and said that the EBA would amend the wording.

Participants of the Board of Supervisors' meeting 20 April 2022[1]

Chairperson: Jose Manuel Campa

Country	Voting Member/High-Level Alternate	National/Central Bank
1. Austria	Helmut Ettl	Karin Turner-Hrdlicka
2. Belgium	Jo Swyngedouw	
3. Bulgaria	Stoyan Manolov	
4. Croatia	Sanja Petrinic Turkovic	
5. Cyprus	Constantinos Trikoupis	
6. Czech Republic	Marcela Gronychová	
7. Denmark	Jesper Berg/Thomas Worm Andersen	Morten Rasmussen
8. Estonia	Andres Kurgpold	Timo Kosenko
9. Finland	Marko Myller	Hanna Freystatter
10. France	Dominique Laboureix/Emmanuelle Assouan	
11. Germany	Raimund Röseler	Karlheinz Walch
12. Greece	Kyriaki Flesiopoulou	
13. Hungary	Csaba Kandracs	
14. Ireland	Gerry Cross	
15. Italy	Andrea Pilati	
16. Latvia	Santa Purgaile	
17. Lithuania	Simonas Krepsta	
18. Luxembourg	Claude Wampach	Christian Friedrich
19. Malta		Oliver Bonello
20. Netherlands	Maarten Gelderman/Sandra Wesseling	
21. Poland	Kamil Liberadzki	Pawel Gasiorowski
22. Portugal	Ana Paula Serra	
23. Romania	Catalin Davidescu	
24. Slovakia	Tatiana Dubinova	
25. Slovenia	Primoz Dolenc/Damjana Iglic	
26. Spain	Angel Estrada	
27. Sweden	Karin Lundberg	

EFTA Countries	Member	
1. Iceland	Elmar Asbjornsson	
2. Liechtenstein	Markus Meier	
3. Norway	Morten Baltzersen	Sindre Weme

Observer	Representative
1. SRB	Sebastiano Laviola

Other Non-voting Members	Representative
1. ECB/SSM	Sofia Toscano Rico, Carmelo Salleo
2. European Commission	Martin Merlin
3. EIOPA	
4. ESMA	Natasha Cazenave

[1] Kurt Van Raemdonck (NBB); Luca Serafini (Banca d'Italia); Eida Mullins (Central Bank of Ireland); Nina Rajtar (KNF); Pascal Hartmann (FMA); Marek Sokol (CNB); Jurrriaan Paans (DNB); Julia Blunck (BaFin); Cecilia Lozano (Banco de Espana); Robert van Geffen (EC)

5.	EFTA Surveillance Authority	Marco Uccelli
6.	ESRB	Toumas Peltonen, Emilio Hellmers

EBA

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

Heads of Unit

Philippe Allard; Angel Monzon; Jonathan Overett Somnier; Dorota Siwek; Carolin Gardner;

EBA experts

Tea Eger; Andreas Pfeil; Oleg Shmeljov

For the Board of Supervisors

Done at Paris on 14 June 2022

[signed]

José Manuel Campa

EBA Chairperson