



EBA BS 2018 322

Board of Supervisors

18 September 2018/ 9:00-18:00

Location: London

EBA- Regular Use

Board of Supervisors meeting – Final Minutes

Agenda item 1.: Welcome and approval of the agenda

1. The EBA Chairperson welcomed the participants. The Board of Supervisors (BoS) approved the agenda of the meeting.
2. The Chairperson informed of changes to the BoS membership of the UK Prudential Regulatory Authority (Charlotte Gerken as new alternate as of end of September), the Dutch central bank (Maarten Gelderman as new BoS representative and Sandra Wesseling as alternate) and the European Central Bank's Supervisory Board (Linette Field as new alternate).

Agenda item 2.: Findings of the euro area FSAP presented by IMF staff

1. IMF staff introduced the main findings of the euro area Financial Sector Assessment Programme (FSAP). In terms of stability analysis, despite the progress done, they stressed the emergence of risks related to weak profitability of banks, Brexit challenges and cyber risks. In terms of crisis management and resolution, they highlighted the progress done and mentioned issues to be addressed. They also presented policy recommendations to enhance the resolution framework and its operational functioning, or the stress testing exercises.
 2. Members supported some findings of the report such as the assessment of the euro zone resolution framework, considering that the BRRD need a clear framework for liquidity support in case of resolution. They viewed that this weakness was a general challenge for all jurisdictions.
 3. Some members asked general questions about the soundness of the European financial system, possible contagion risks between the banking and non banking sector and benefits drawn by the implementation of TLAC in the euro area. Some members also mentioned the
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benefits of interactions between the euro area FSAP and the national assessment carried out by the IMF.

4. EBA staff asked technical questions about the methodology and the results of IMF solvency stress tests.
5. The ECB/SSM representative considered the FSAP very useful and timely. She raised some concerns regarding the fragmentation highlighted in the assessment, inconsistencies in the investment firms' supervision, needed enhancement regarding crisis management. She also voiced her concerns over the communication around EBA's stress tests and the need for clear explanations of differences with the IMF approach.
6. The SRB representative supported the vast majority of IMF concerns and agreed that the completion of the Banking Union required further action, but noticed that moving along the lines suggested by the IMF would entail changes to Level 1 legislation. He also stressed that further harmonisation of insolvency regimes is needed.
7. The European Commission representative also welcomed the FSAP exercise and its timeliness. He viewed that the FSAP report would be a good tool to start thinking of what should be achieved by the next college of the European Commission. He also mentioned the planned review of the BRRD with an aim to taking some of the FSAP recommendations on board.
8. The Chairperson observed that the resolution framework revealed some weaknesses that should be addressed and supported the recommendations put forward by the IMF.
9. IMF staff answered the different questions and comments. They viewed that euro area banks were more stable now than before the crisis. However, they also considered that some banks are more stable at the individual level but systemic risks are still looming over. The interactions between banking and non-banking sectors were also a major concern. Equally, impediments to resolution of banks in the euro area were also concerning. In terms of stress testing, they confirmed that communication was an important point to think of. Stress testing process should be streamlined to be more efficient. On resolution, in spite of the progress done, further work is needed, especially if the new framework has to be effective in a system-wide crisis. Some existing constraints should be removed in the Level 1 legislation in order to address the impediments to resolution.
10. The Chairperson mentioned his concerns about the legal framework which still left room for national discretion. Those weaknesses would be reduced gradually. In this regard, he called for a clear prioritisation of issues to be addressed.

Agenda item 3.: Appointment of a new member of the Management Board

11. In order to fill a vacancy in the Management Board (MB) and further to a call for nominations launched on 20 June, two voting members applied for the position. However, one candidate withdrew his application before the meeting. An election by consensus took place.

Conclusion

12. The BoS elected Jesús Saurinas as member of the MB for a first term of 2.5 years with immediate effect.

Agenda item 4.: Appointment of a new chair of SCRePol, SCARA and TFIS

13. Following a call for nominations on 20 July to fill three vacancies as co-chair of the Standing Committee on Regulation and Policy (SCRePol), chair of the Standing Committee on Accounting, Reporting and Auditing (SCARA), and chair of the Task Force on Impact Studies (TFIS), six applications were received, four of which for the election of the SCRePol chair. An election took place in accordance with the EBA Founding Regulation and the BoS Rules of Procedure to designate the chair of SCRePol. SCARA and TFIS chairs were elected by consensus as there was only one candidate for each standing committee.

Conclusion

14. The BoS elected Gerry Cross as co-chair of the SCRePol, Andrea Pilati as chair of the SCARA and Pedro Duarte Neves as chair of the TFIS.

Agenda item 5: Update on risks and vulnerabilities and NPLs development

15. The EBA Director of Economic Analysis and Statistics (EAS) department presented the latest update on risks and vulnerabilities of the European banking sector. He stressed that CET1 ratios were stable, supported by increasing capital, along with growing RWAs. He also noted that profitability of banks remained an issue, with net interest margin still declining. On the asset side, he emphasised that total assets had decreased from 2015 onwards. In contrast, total loans have been on an increasing trend since 2015, but facing a decline in Q2 2018.
16. He showed the trends of PDs and LGDs as general support developments of RWAs and concluded that the movement of risk weights was not in line with the loss rate for some portfolios. With regard to Non-Performing Loans (NPLs), he noted that the total volume had declined over the last three years but the distribution across the EU was still uneven. He explained the differences observed in the NPLs decline among all the borrower types. He also sought information about the role of NPL sales in the NPL reduction process in the different countries. He informed of the EBA's work on NPLs, mentioning the update of EBA NPL templates, the updated timeline for the GL work and the ongoing work on the draft proposal on an EU transaction platform, in line with the Council Action Plan and in order to improve

secondary markets for NPLs. He updated on the risks arising from emerging countries and in particular on the EU/EEA banks' direct exposures to Turkey which although it looked contained and related to selected institutions, the risks of possible spillovers should be monitored.

17. Some BoS members presented the progress made in the reduction of the stock of NPLs and the complementary remedial actions taken in their respective countries. It appeared that the situation was different across the EU - with sales, recoveries and write-offs playing a different relative role across countries and over time. It was also noted that small banks may have more difficult access to investors. In this regard, BoS members discussed how securitisation could help smaller banks.

18. BoS members also raised their concerns with regard to different types of risks, such as the increase of real estate prices, exposures to emerging markets or funding issues. Some members explained the measures taken in their country (for instance, increase in RWs) due to an increase of lending. In this regard, they advised that lending standards should remain sound. The Chairperson also mentioned need to monitor CVA risk, especially in relation to emerging markets.

19. The Director of Banking Markets, Innovations and Consumers (BMIC) provided a further update the BoS on the NPL platform. He clarified that the idea on EU NPL platform was still active and being discussed with the Commission, the ECB and within the FSC as an important channel for smaller banks to access investors. He also informed the BoS about a possibility to organise "roadshows" with the EBA staff in their jurisdictions to provide training on the EBA NPL templates and discuss NPL policy work.

20. The Director of the EAS department acknowledged the idea of an in-depth analysis of the emerging market issues, which would be presented in October.

Agenda item 6: Stress test update

21. The stress test update was given in a restricted setting.

Agenda item 7: Update on the EBA's relocation to Paris

22. The Executive Director gave an update on the EBA's relocation to Paris. Due to the delay of the legislative process regarding the change of the EBA's location, he explained that the exclusivity clause agreed with the landlord of the selected building should be extended. He made clear that this could lead to a significant delay of the start of the fit-out, making the date of the move in March 2019 highly unrealistic.

23. He updated on the measures taken by the EBA to ensure continuity of the operation of the agency, i.e the establishment of a reserve list for some "core" jobs. Regarding the data migration outside the UK, he noted that the EBA was waiting for the approval of the

amending budget approved by the Management Board and sent to the European Commission.

Conclusion

24. It was decided that a new update would be done at the October BoS meeting.

Agenda item 8: Banking Stakeholder Group renewal

25. The Chairperson explained the process carried out to select the new members of the Banking Stakeholder Group (BSG). He also described the difficulties to identify outstanding candidates while fulfilling all requirements defined in the call for interest in relation to the different constituencies, nationality and gender.

Conclusion

26. The proposed list of BSG members was approved.

Agenda item 9: Monitoring of the LCR implementation in the EU - review of issues and way forward

27. The Chairperson indicated that the main purpose of the discussion was to agree on a regular publication of the LCR monitoring.

28. The head of the Liquidity, Leverage, Loss Absorbency and Capital Unit presented the objectives of this work, noting that the existing discretions at the national level have in some cases a material impact on the LCR. In this regard, a regular monitoring of the implementation of the LCR was seen as essential to allow for a better understanding of issues emerging in the practical application of the LCR. She also presented the possible options the EBA could use to ensure a level playing field, in light of different approaches adopted by CAs. The methodology, main findings and next steps, including consultation with stakeholders, were also discussed.

29. Members supported the work carried out by the EBA and an ongoing monitoring of the implementation issues. This was judged as a very important piece of work, especially for the identification of issues where the EBA's guidance would be beneficial. In this regard, the representative of the ECB/SSM also welcomed guidance on certain issues such as operational deposits and exemption of retail deposits. However, one member questioned whether the LCR monitoring report was the most appropriate way to provide guidance as it had not the legal strength of Guidelines.

30. Some members suggested focusing on priority issues and postponing the more sensitive issues for a future publication. Other members proposed to collect stakeholders' views on certain issues to help design the necessary guidance.

31. One member disagreed with the EBA analysis in substance, especially on the application of Article 26 of the Delegated Act, considering that this article regarding the treatment of outflows with inter-dependent inflows subject to a specific authorisation from the relevant CA was properly used in his jurisdiction. He expected further discussion at the technical level to address this issue.
32. With regard to LCR by significant currency, some members viewed that flexibility should be applied in this area as it is not a binding requirement either in the Basel agreement or in EU legislation.
33. On the publication of the report, it was indicated that a revised version of the report would be submitted at the December BoS meeting and may be published at a later stage. There was broad support, although some members stressed that a cautious approach should be taken for the publication in order to convey the right messages and observations to the market.
34. The European Commission representative welcomed this work and supported the monitoring of the LCR application and the publication of the report. He agreed on the issues raised but suggested to have further reflection on the application of Article 26. He also supported the issuance of possible guidance on retail deposits and material penalty provided that it was fully compliant with the text of the Delegated Act.

Conclusion:

35. The Chairperson concluded that there was a clear consensus on the need for continuing this monitoring work on a regular basis and the publication of a sanitised first version of the monitoring report, which should also be followed by regular publications. He specified that clarification on how the EBA would be dealing with the identified issues and addressing them should be included in the report. In particular, it will be important to clearly identify issues that may be addressed by the report itself from issues that may be addressed via other types of tools (like Q&As or Guidelines). Consultation with stakeholders will also be duly organised.
36. The updated version of the report for publication will be presented to a next BoS meeting (possibly in December). On the most sensitive issues discussed, e.g. LCR by significant currency, application of Article 26, he advised to engage with the relevant CAs and continue to work on the analysis.

Agenda item 10: Key findings from the Basel capital and LCR monitoring reports

37. The Chairperson introduced the discussion on the key findings of the EBA reports on Basel III Monitoring Exercise and on Liquidity Measures.
38. The Director of the EAS Department summarised the main outcome of the capital and LCR monitoring exercises and highlighted some differences compared to the past. He communicated some preliminary results on the impacts of the final Basel III reforms and capital shortfalls. He

explained how banks would be constrained by different factors such as the output floor and the leverage ratio.

39. With regard to the LCR monitoring exercise, he noted that the report was based on ITS data instead of QIS data and covered a higher amount of total assets and all countries in the EU. He stated that the LCR was on average well above the minimum requirements. He specified that GSIs and O-SIs had lower LCR than the other types of banks. He also revealed that there was low levels of LCR in USD, which might generate problems in stress periods and recommended CAs to use discretionary measures to restrict currency mismatches.

40. He updated on the ongoing Call for Advice, indicating that there was a low participation and asked CAs to include intermediaries in the sample.

41. The Chairperson relayed the concerns about the limited number of banks in the sample used to respond to the Call for Advice and advised to have bilateral contacts with some CAs to ensure a more comprehensive coverage.

42. Members asked further explanation about the expected impact of the leverage ratio, or the treatment of CVA exemptions. Some members also raised some concerns about the proposed IT solution for transmitting the data and raised some implementation issues related to IT security. One member recommended not to publish the report, considering that the EBA would publish another report potentially different from this one next year.

43. The director of the EAS department explained the report would be published in the coming weeks in parallel with the BCBS report. With a view to avoiding confusion, he suggested clarifying the differences between this report and the Call for Advice and emphasised that the results were preliminary. With regard to the process suggested, he viewed that the EBA should implement a centralised process, but was open to discuss operational issues with the TFIS.

Conclusion:

44. The BoS took note of the preliminary findings of the capital monitoring report. A written procedure will be launched soon to seek the BoS approval for the publication of both the LCR and the capital monitoring reports.

Agenda item 11: Draft Terms of Reference of the peer review on the RTS on criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile under Article 94(2) of Directive 2013/36/EU

45. The Executive Director presented the objectives of the peer review of the RTS on "identified staff". He stressed that the focus of the peer review would be on the practices of CAs with a view to understanding how the CAs ensure that the requirements under the RTS are applied by the institutions across the EU.

46. He listed the main concerns raised at technical level by the Review Panel members. Firstly, despite some Review Panel members were in favour of shortening the reference period, he explained that the EBA wanted to keep a three-year span for the reference period to enable the Review Panel to benchmark the practices and to see the trends since the entry into force of the RTS. Secondly, the EBA suggested to assess the entire process of identification of the material risk takers by covering all the steps from the institutions to the supervision by the CAs. In doing so, the Review Panel may collect information from a representative sample of banks via the CAs. In this respect, the terms of reference did not envisage that the EBA would approach directly the banks. Equally, the EBA did not plan to carry out a widespread data collection. He made clear that the Review Panel would identify a limited sample of banks capturing any issues related to the identification of risk takers. This sample would be selected on criteria agreed by the Review Panel and the final sample would be also approved by the Review Panel. Interaction with the firms will be directly managed by the relevant CAs. Thirdly, he explained that the timeline for the peer review would be a bit lengthier than the previous exercises, with completion by October 2019. Finally, in terms of the application of the proportionality principle, the Review Panel would still need to look at it as some MS have introduced some waivers regarding the identification process. He noted that the EBA's Opinion issued in 2015 would be taken into account during the review process but the benchmarking would not be applied on this area.
47. Mixed views were expressed by BoS members. Although some members supported the draft terms of reference, other members raised their concerns around the data that would be collected by the CAs from a sample of institutions considering that the aim of a peer review should be to focus on the review of CAs' practices and not the practices of the banks. Some members also viewed that the three-year reference period was too long and would trigger a burdensome process. In terms of scope, a few members questioned the added value of assessing proportionality of the identification process.
48. The Chairperson clarified that the peer review exercise did not aim to assess how proportionality was applied, but to understand the underlying practices with regard to the identification process and that both were linked.
49. The European Commission representative expressed his disappointment regarding the suggestions to limit the ambition and the objectives of the peer review. He deemed that this peer review was essential to perform an in-depth assessment. He fully supported the EBA's proposal.
50. The Executive Director clarified that the peer reviews aimed to assess the supervisory practices. In doing so, the expectations would be to get the necessary information through CAs. On the reference period, he explained the reasons which led the EBA to suggest a three-year period, including the need to assess the development of practices over time. The findings of this peer review would fuel the reflection on the technical standards.

51. Taking into account the concerns expressed by some BoS members on an additional data collection via CAs, the Chairperson concluded that if these concerns were to remain, they should be discussed at the Board of Supervisors table.

Conclusion:

52. The BoS agreed on the draft terms of reference.

Agenda item 12: Review/Approval of Q&A 3173

53. The Chairperson observed that there was a lack of clarity about the scope of the legal definition of speculative immovable property financing, which led to this Q&A. As the new Basel agreement would include specific requirements for the new class of exposures, he emphasised that it was essential to find a right balance to avoid that banks have to reverse their processes in a few months. In terms of process, he recalled that the BSG was consulted and during the BoS written procedure a very large majority was in favour of the proposed answer. However, a few CAs raised their opposition to the draft response. To address these concerns and with an aim to gathering support that is as close as possible to consensus, EBA staff tabled an amended response for review. To the extent that this would gather a larger consensus it would be adopted, otherwise it the answer which received a majority support in the written procedure would be published.

54. The head of the Risk-Based Metrics (RBM) Unit explained the technical issue. He clarified that it was not an attempt to pre-empt the Basel treatment, but he considered necessary to avoid that banks would have to change their practices once the Basel agreement would be finalised and enforced.

55. Some members expressed their support in favour of the amended proposal. However, most intervening members considered that the amended proposal did not clarify the issue and could even introduce more uncertainty.

Conclusion:

56. The Chairperson concluded that since the tabled proposal did not achieve its objective, the answer as submitted for written procedure would be published.

Agenda Item 13: Brexit-related issues

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

Agenda Item 14: AoB

58. The European Commission representative updated on the legislative proposal to change the EBA Founding Regulation with regard to anti-money laundering (AML).

59. He elaborated further on the proposal, which planned to pool expertise and resources within the EBA. He specified that the EBA's work on AML would be better shaped with an implicit and precise mandate to actively contribute to AML issues. The tools to address AML issues would be also reinforced, meaning that the EBA could collect information on weaknesses identified and measures taken by CAs, promote convergence with risk assessment exercise and reviews. The EBA should also get new powers i) to request AML authorities to start investigation in case some concerns are identified and to come with suitable measures and sanctions, and ii) to use breach of Union law tool. The international role of the EBA would be also reinforced as a first contact point for third country authorities. He made clear that the legislative proposal was meant to bring essential changes to the EBA Founding Regulation in the short term, and that the accompanying Communication was setting out a number of possible additional improvements for the long term.

Participants at the Board of Supervisors' meeting

18 September 2018, London

Chairperson: Andrea Enria

<u>Country</u>	<u>Voting Member/High-Level Alternate¹</u>	<u>National/Central Bank</u>
1. Austria	Michael Hysek	Philip Reading
2. Belgium	Jo Swyngedouw/David Guillaume	
3. Bulgaria	Dimitar Kostov	
4. Croatia	Sanja Petrinić Turković	
5. Cyprus	Stelios Georgakis	
6. Czech Republic	Marcela Gronychová	
7. Denmark	Carsten Kjær Joensen	Peter E. Storgaard
8. Estonia	Andres Kurgpõld	Indrek Saapar
9. Finland	Jyri Helenius	Katja Taipalus
10. France	represented by Frédéric Hervo	
11. Germany	Peter Lutz	Karlheinz Walch
12. Greece	Kyriaki Flesiapoulou	
13. Hungary	Csaba Kandrács	
14. Ireland	Ed Sibley/Gerry Cross	
15. Italy	Luigi F. Signorini/Andrea Pilati	
16. Latvia	Gunta Razane	Pilsuma Vita
17. Lithuania	Renata Bagdoniene	
18. Luxembourg	Martine Wagner	Norbert Goffinet
19. Malta	Ray Vella	Oliver Bonello
20. Netherlands	Olaf Sleijpen	
21. Poland	Mateusz Mokrogulski	Pawel Gasiorowski
22. Portugal	Pedro Duarte Neves/José Rosas	
23. Romania	represented by Iuliana Marinescu	
24. Slovakia	Tatiana Dubinová	
25. Slovenia	Marko Bošnjak/Damjana Iglič	
26. Spain	Jesús Saurina Salas/Alberto Ríos Blanco	
27. Sweden	Martin Noréus	
28. UK	Hywel Dawes	

¹ Accompanying experts: Ingeborg Stuhlbacher (Austrian Finanzmarktaufsicht); Kurt Van Raemdonck (National Bank of Belgium); Marek Sokol (Czech National Bank); Maurizio Trapanese (Banca d'Italia); Tijmen Swank (De Nederlandsche Bank); Nina Rajtar (Polish Financial Supervisory Authority); Nigel Fray (Bank of England's PRA)

<u>Country</u>	<u>Member</u>	<u>Representative NCB</u>
1. Iceland	Jon Thor Sturluson	Orn Hauksson
2. Norway		

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

<u>Other Non-voting Members</u>	<u>Representative</u>
1. SSM	Korbinian Ibel/Linette Field
2. European Commission	Dominique Thienpont
3. EIOPA	Kai Kosik
4. ESMA	Mette Sicard Filtenborg
5. ESRB	Tuomas Peltonen
6. EFTA Surveillance Authority	Marco Ucelli

EBA Staff

Executive Director	Adam Farkas
Director of Prud. Regulation and Supervisory Policy	Isabelle Vaillant
Director of Banking Markets, Innovation and Consumers	Piers Haben
Director of Economic Analysis and Statistics	Mario Quagliariello

Philippe Allard; Angel Monzon; Lars Overby; Jonathan Overett Somnier; Delphine Reymondon

Ester Botica Alonso; Djamel Bouzemaarene; Dragan Crnogorac; Adrienne Coleton; Cédric Coraillon-Parquet; Luis del Olmo; Guy Haas; Lampros Kalyvas; Marina Lopez Villarroel; Achilleas Nicolaou; Andreas Pfeil; Oleg Shmeljov.