



EBA BS 2019 428

Board of Supervisors

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Board of Supervisors meeting – Final Minutes

Agenda item 1: Welcome and approval of Agenda

1. The Chairperson welcomed the participants. He informed the BoS that several Members requested a change in the order of some items on the Agenda, in particular to discuss the update on PSD2 implementation and RTS SCA as the first item after the lunch break.
2. The Chairperson reminded the BoS that the Minutes of the previous meeting were approved by the BoS via written procedure.
3. Finally, the Chairperson welcomed new Members from Slovenia - Mr Primoz Dolenc a BoS Member; from Latvia - Ms Kristīne Černaja-Mežmale as a BoS Member, and from Sweden - Ms Camilla Ferenius as a High-Level Alternate from the Riksbank. He also reminded the BoS that Mr Edouard Fernandez-Bollo and Martin Noreus stepped down as BoS Members.

Conclusion

4. The BoS approved the Agenda.

Agenda item 2: Update on risk and vulnerabilities in the EU

5. The EBA Director of Department Economic Analysis and Statistics (EAS) delivered a presentation on risks and vulnerabilities, focussing on latest developments on capitalisation, NPLs and profitability in the EU banking sector as reflected in the preliminary Q2 2019 EBA Risk Dashboard, as well as on cost drivers and consolidation. He pointed out that, overall, capital levels remained strong and NPLs kept declining. However, NPL evolution needed monitoring due to the lower pace of reductions and weaker economic outlook. Additionally, low profitability stood out as a key challenge, not least because of limited improvement on the cost side.
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6. A presentation by the IT Member followed with a focus on the consolidation process of Italian mutual banks. The IT BoS Member summarised the legislative background and main milestones and pointed out several challenges, in particular relating to risk control functions, asset quality and the group structure. He pointed to indications for an improvement in banks' profitability since the mergers.
7. One Member pointed out that, due to national specificities, the respective market appeared not to be concentrated. He suggested to further analyse and discuss the topic of market concentration.
8. The ESRB representative informed the BoS that the ESRB was planning to publish 11 warnings and recommendations in the coming days related to residential real estate. He noted that the combination in the past few years of growing CET1 ratio and somewhat low leverage ratio could reflect a preference of some banks for exposures with lower RW and, thus, a de-risking process. Then, he mentioned that the ESRB was analysing what banks could and should do to increase their profitability and that this topic was discussed at their General Board. He also pointed out that the focus should be on the process to allow less profitable banks to leave the market.
9. One Member questioned whether the EBA should analyse the existing negative interest rates environment and its impact on profitability.
10. In his response, the Director of EAS explained that the EBA would further look at market concentration per country and also liaise with Members if necessary.
11. The Chairperson concluded that the EBA would further monitor low profitability situation in order to identify possible remedies for low profitability for banks.

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

12. The Chairperson introduced the item by reminding the BoS that since the resignation of the Executive Director, the EBA staff have been making preparations for selecting his successor.
13. The EBA Head of Legal Services continued by explaining the selection procedure, beginning with a publication of the vacancy notice on 3 October, establishment of a selection committee, interviews with candidates, assessment centre and finishing, selection of final candidate by the BoS, with a hearing held at the European Parliament and its approval of the nomination. Taking into consideration all these steps, the Head of Legal summarized the timeline and pointed out that a new Executive Director could be expected to be in place by spring 2020. He concluded by mentioning that in the meantime, arrangements are being developed for the current Executive Director's responsibilities to be exercised by EBA senior management.
14. While the BoS agreed with the selection procedure, some Members requested clarification on the framework applicable after the current Executive Director leaves the service. In his

response, the Head of Legal Services explained that all staff have to notify the EBA for 24 months after leaving their position regarding their next occupational activity. He also referred to the Staff Regulation, which set up the legal basis and mentioned the Joint Committee's, the Advisory Committee on Conflicts of Interest of the Management Board, and the Ethics Officer's role in considering the scope of the next job and whether it could create a conflict of interest. He continued by explaining that while the Staff Regulation required restrictions to be applied to 'senior officials' like the Executive Director, it did not impose any so called gardening leave and therefore, it was for the EBA to decide on it in the case of the current Executive Director.

15. The Chairperson stressed that according to the Decision adopted by the BoS, the Executive Director could work on operational issues and budget only until 31 October. After this date, he would not be allowed to be present at the EBA's premises other than on the request of the Chairperson. He also mentioned that he has received complaints regarding the decision from MEPs and Finance Watch, which requested a ban to take up the proposed position for 2 to 5 years for the current executive Director. In this regard, the Head of Legal emphasised that according to the Staff Regulation, the maximum period during which the staff had to inform the EBA about their future jobs after leaving the EBA was 24 months and therefore, this maximum period was also used in the case of the departing Executive Director.

Conclusion

16. The BoS approved the vacancy notice and the selection procedure.

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

17. The Chairperson reminded the BoS that given a recent departure of Edouard Fernandez-Bollo, there was a vacant position at the Management Board. To that end, the EBA launched a call for expression of interest on 27 August 2019 by means of written procedure to fill the vacant position. The EBA received one application from Ms Martina Drvar, Vice-governor at the Croatian National Bank.

Conclusion

18. The BoS approved the nomination of Martina Drvar as a Member of the Management Board.

Agenda item 5: EU-wide Stress-test exercise

19. The EBA Head of Unit Risk Analysis and Stress Testing (RAST) provided an update on the methodology to be used in the 2020 stress test exercise. He mentioned that after the June BoS meeting, the EBA published a first draft of the methodology, templates and template guidance. This was followed by the kick-off of the industry discussion, during which the EBA asked banks to provide written comments on the stress test package. After the end of this process, the EBA

organised a workshop with the banks and the CAs. As result, the feedback from banks was considered in the revised methodology.

20. The ECB representative highlighted two issues related to the NII and the FAQ process. With regard to the NII, his preference was to use the previous methodology regarding derivatives as the new proposal was not realistic and overly penalising. Several Members supported this view. On the FAQ process, he proposed to have a freeze period of 2-4 days and not 2 weeks as suggested by banks. He concluded by mentioning a request from the industry to disclose more details on the top-down models used in the stress test exercise and explained that the ECB was not in favour of such disclosure.
21. One Member commented on the treatment FX effects and showed preference to approach this issue in a holistic way instead of focusing only on NII as this would lead to a distortion of the results since the FX affects also the costs and balance sheet and not only the banks' NII. Another Member stressed that current approach was only a temporary solution that had to be reviewed in the future. It was clarified by the EBA Head of RAST that the simplified approach was taken to achieve a more targeted solution as the NII was identified as the main source of distortions. Similarly, some Members raised comments related to the FAQ process and agreed with views presented by the ECB representative. Finally, some Members mentioned that the details on the credit risk benchmarks should not be disclosed. In this regard, one Member mentioned that these benchmarks, even if being a simplification of reality, should be as realistic as possible.
22. One Member proposed to further analyse interest rates in emerging countries and whether the impact of sovereign was fully addressed in the methodology.
23. Other Member pointed out that some comments from the industry were not considered in the updated methodology. In particular, he referred to a more granular APM for sight deposits.
24. In this response, the Head of RAST reminded the BoS that the purpose of the update was to inform the BoS on the way forward and in the meantime, work on the finalisation of the methodology will continue. It was confirmed by the EBA staff that the derivative treatment in NII and FAQ process would be reconsidered. He clarified that the methodology would be submitted to the next BoS meeting in October for comments along with detailed milestones of the 2020 exercise.
25. The Director of EAS continued by presenting proposals for long term changes to the EU-wide stress test. He reminded the outcome of the BoS away day, in particular that the EU-wide stress test is a micro-prudential exercise with clear future objectives: a) giving supervisors concrete support to the SREP for assessing capital planning, b) helping banks improve the risk management framework, and c) providing disclosures for market scrutiny as a by-product. He set out the following criteria for assessing suitability of potential future changes: realism (outcome should be as close as possible to the actual results if adverse scenario materialises), reliability (accuracy and preventing gaming), comparability (of results across banks) and

efficiency (costs vs benefits). Before deciding on any changes, the EBA should assess their impacts. In line with the guidance from the BoS away day, he mentioned that the EBA work and the discussion in the STTF regarding the future changes focused on possible relaxation of constraints and inclusion of dynamism in the current bottom-up approach, the role of the top-down approach, and a feasibility of introducing multiple scenarios. He continued by presenting how the bottom-up approach could be adjusted to improve realism, this included options with various degrees of relaxation. He also presented three options for assuring reliability of the exercise – 1) comprehensive top-down as EBA quality assurance tool (recommended by the ECA); 2) top-down for some risks to replace parts of the bottom-up; 3) full top-down model. Finally, an idea for combining realism with reliability was presented, in which there would be two separate outcomes in the exercise, one – possibly based on a less constrained bottom-up – coming from banks (owned and signed off by them) and the other coming from the supervisors, based on either a full/partial top-down or on a constrained bottom-up. One of the two would be used as a starting point in the potential dialog between the two, or, there would be two sets of results, with supervisory view being the binding one and the input to P2G setting.

26. The ECB representative appreciated the discussion on potential changes, confirmed that in their internal discussion their criteria for implementing changes is close to the EBA ones (relevance, comparability, transparency and supervisory costs) and highlighted that the decrease of supervisory costs will play a major role in the changes. He also mentioned that competent authorities (CAs) would need to prepare for the changes and adapt their IT systems and therefore, timelines for any changes should be realistic. They support the earlier option, implementing the changes already by 2022 exercise. In addition, they do not see a need for an EBA top-down quality assurance tool, since there would be a duplication of work and it would be hard to find a “one-fit-all” tool for all of the authorities.
27. One Member referred to a discussion paper published in summer by their authority and pointed out that their preference would be if the macro prudential stress would be done by the EBA and the micro prudential by the CAs. He also mentioned that if the data from the stress test exercise were to be used in SREP, they had to include risk management practices. He was of the view that constraints from static exercise should be removed and the whole exercise should be more dynamic and more bottom-up based.
28. Another Member was of the view that the top-down approach was more challenging and expensive. He stressed that not much of the collected data has been used in supervision and that if the EBA and CAs wanted to learn more about banks, changes to the methodology were necessary.
29. One Member agreed with the criteria for the assessment of changes and supported a full top down approach. Other Member considered that to incentivise banks, bottom-up approach was needed and that the comparability across countries had to be achieved, however, one Member highlighted the need for strong top-down components in order to avoid gaming. A couple of Members stressed that the top-down should be kept at the level of the CAs, due to reasons

mentioned by the SSM, while one Member said that we should not immediately discard the ambition to have an EU-wide top-down model. Other Member highlighted that it would not be recommended to completely change the structure of the exercise and that if more freedom was to be introduced in the bottom-up option, more control would have to be added in the to-down option.

30. Many Members were of the view that combining outcomes coming from banks and those based on supervisory models could be the way forward since this would make banks more responsible but still would ensure the conservatism of the results.
31. The Director of EAS responded that the criteria had to be slightly revised and clarified that the EBA had to further discuss the timing. He acknowledged that the work would have to be speeded up if major changes would be introduced for the 2022 exercise. He mentioned that the quality assurance through a top-down does not necessarily have to be done by the EBA, but also reminded the BoS of the recent audit, which recommended more top-down approach and more quality assurance at the EBA level. He summarised that according to the feedback the idea of having two separate views, one coming from banks and the other from supervisors, should be further explored and the starting point for P2G should be decided as well as the level of disclosure of the different outcomes.
32. The Chairperson concluded by highlighting that the EBA would further analyse practicalities of the implementation of any potential changes and make some proposals to the BoS in October building on the idea of having two outcomes, banks' and supervisors'. He also suggested that timeline of implementation of potential options should be discussed in the final discussion paper.
33. The Chair of the ESRB Task Force on Stress Testing presented a number of options for improving the scenario design process based on a lessons learnt exercise conducted after the finalisation of the 2018 scenario. He mentioned that a lag between scenario publication and announcement of results has led some commentators to criticise the scenario for being outdated and/or less relevant. To that end, he continued by listing options for improvements, in particular related to the communication, designing of two scenarios as well as making scenarios subject to revision. He also highlighted that given the current risk assessment and lessons learnt from the previous stress tests scenarios, the most preferable was to choose between two potential narratives for the adverse scenario: 1) Lower for longer, or 2) Repricing of risk premia and debt crisis. He pointed out that designing two scenarios as an alternative option, might affect the timeline.
34. Majority of the Members preferred the first scenario; i.e. lower for longer, which they considered more realistic. However, several Members requested clarification on the impact of each of these two scenarios and their feasibility and practicality. One Member highlighted that the key was to use realistic assumptions. Some Members pointed out that the scenario should be meaningful at the national level and that country specific add-ons might be necessary. Another Member opted against the use of country specific add-ons but recommended the

introduction of country specific severity targets. Some Members were also of the view that there should be a scenario that would give the largest impact. One Member question how the lower for longer scenario fitted with the current and updated methodology.

35. There were various views on the importance of the narrative. While a few Members would support less narrative and only concentrate on the shock, one Member sees the narrative as needed for communication and comparability purposes.
36. Whereas several Members expressed their view that two scenarios would be beneficial in overcoming the received criticism, other Members doubted the practicality of this as more scenarios would increase already challenging workload.
37. With regard to the communication, the BoS supported improvements that would increase the relevance and acceptance of the scenario(s) by the industry. One Member suggested to first publish the narratives for scenarios. Other Member was of the view that whichever scenario would be chosen for the next stress test, it should be communicated as soon as possible.
38. The Director of EAS clarified that the EBA was conducting an assessment of implication of the lower for longer scenario for risk projections in the current methodology. He supported that the scenario should be communicated as soon as possible.
39. The Chairperson concluded that the majority of the Members preferred the lower for longer scenario and that the aim of the communication should be to increase the importance of the scenario. He acknowledged that this issue would be discussed at the next BoS meeting in October by when the EBA might already have more details on the feasibility of applying the lower for longer scenario to the methodology. By the same time the ESRB/ECB might also produce a rough impact assessment on the severity of two scenarios, showing approx. banks' capital depletions. The idea of having a partial scenario early in the exercise with full parameter disclosure at the later stage should be explored. Having multiple scenarios was not supported for this exercise, but a possibility beyond 2020.

Agenda item 6: Sustainable finance – Discussion note

40. The Chairperson introduced the item by reminding the Members that the BoS discussed preliminary work-plan for the EBA work on sustainable finance at its October 2018 meeting. Since then there have been several developments at the European and international level, which has influenced the EBA's work and prioritisation.
41. The EBA Director of Banking Markets, Innovation and Consumers (BMIC) Department continued by clarifying that the European Commission (EC) published an Action Plan Financing Sustainable Growth on 8 March 2018 setting an EU strategy on sustainable finance and a roadmap for future work across the financial system. The Action Plan called on the ESAs to provide direct support to its implementation by performing specific tasks included in the Action Plan, in particular to provide guidance on how sustainability considerations can be effectively taken into account in relevant EU financial services legislation and help to identify

existing gaps as well as to promote convergence on the implementation of sustainability considerations in EU law. In addition to the Action Plan, each ESA received mandates in the amended founding regulation and specific mandates in sectoral legislation and calls for advice. These mandates and the related EBA work was structured around the following four topics: 1) strategy and risk management; 2) key metrics and disclosure; 3) scenario analysis and stress testing; and 4) prudential treatment. He explained that the EBA was proposing to issue a communication, in order to outline the EBA work plan and priorities and to encourage the industry to act proactively. He concluded by mentioning that considering the mandates given to the EBA via legislation and the EC's Action plan, the complexity of the topic and the deadlines, the EBA was expected to deliver a significant amount of work between 2019 and 2025.

42. The Members supported the public communication including a roadmap and key messages to industry to raise awareness on the topic. One Member emphasised the urgency to show a stance and to publish a communication by the end of the year at the latest. Some Members proposed close liaison with ESMA and the ESMA representative clarified that they have been co-ordinating with the EBA on this topic and would continue to do so on any future w communication.
43. One Member suggested more coordinated approach and was of the view that the Network on Sustainable Finance should be given more prominence. In this regard, another Member was of the view that there should also be a working group and not only the Network. One Member stressed that compared to the first discussion last year, there were major developments. He pointed out that the topics were horizontal and cross-cutting and that instead of creating more working groups, the EBA might want to consider integration of various group on this topic. In support of this point of view, another Member mentioned that given the major developments input from the EBA could be planned earlier than the current 2025 timeline. Furthermore as a practical way forward he mentioned that the incorporation of Sustainable Finance into the loan origination standards could be a way to integrate sustainable finance into EBA's work.
44. One Member was of the view that any initiatives related to the stress test should not be incorporated in the updated methodology at this stage.
45. The EC representative also supported the work and agreed that the industry should not wait for the EBA to finalise all its mandates by 2025 but should start adjusting their systems without further delays. He also mentioned that understanding of so called brown assets is also important for the risk management and stress testing. Finally, the input from the EBA on the CRR mandate would be welcome sooner than the legal deadline on 2025.
46. The Director of BMIC clarified that the legal deadline was in 2025 but the EBA was planning to issue a discussion paper earlier.

Conclusion

47. The BoS supported the work on sustainable finance.

48. The BoS agreed to a publication of a communication by the end of 2019.

Agenda item 7: Brexit update

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

Agenda item 8: Equivalence and template cooperation agreements – Discussion note

50. The Chairperson introduced the item by mentioning that during the recent years, the EBA has been active in the assessment of equivalence of third countries, both of the regulatory/supervisory framework and of the confidentiality provision of third country authorities. Moreover, the recent ESAs review has further strengthened the role of the EBA on the monitoring of equivalence decisions and established a closer link between equivalence and relevant cooperation agreements with authorities from non-EU countries.
51. The EBA Head of Unit Banking Markets, Innovation and Products (BMIP) reminded the BoS that last year in October, the BoS supported a new approach (“equivalence engagement model”) that could provide a closer and more effective link between equivalence assessment and cooperation arrangements with third countries. The model included a framework for classifying third countries into a ranking; the prioritisation for equivalence assessments and the frequency of monitoring, and the types of cooperation arrangements, including the types of cooperation arrangements needed with relevant third-country authorities.
52. It was explained that the Discussion Note provides more operational details for each step of the process and the package of cooperation arrangements to be used to engage with a third country authority.
53. The Head of BMIP clarified that the discussion note has been submitted to the Resolution Committee in July, where it gained broad support, and a data collection has been launched to collect evidence on arrangements already in place at RAs. Data gathered so far showed that currently only few RAs have specific FCAs for resolution in place, thus suggesting that the EBA could play an important facilitating role here. The note proposed that a similar data collection will be launched also among Competent Authorities (CA), with the aim to understand how many CAs have already cooperation arrangement in place and with which third country.
54. Finally, the Head of BMIP informed that following the publication of the EC Implementing Decision on Argentina equivalence in March 2019, the EBA would approach the Banco Central de la Republica Argentina (BCRA), in its capacity as financial regulator; banking supervisor (including AML) and resolution authority, as well as the National Securities Commission (CNV), which is competent for investment firms, with a proposal to conclude cooperation arrangements.

55. The ECB representative pointed out that the current template for bilateral MoU for supervision might be too detailed, and that MoUs will need to be tailored to the specific features of the third country. To that end, he informed that – thanks to a number of MoUs already concluded with a number of third countries, the ECB could assist EBA and CAs in this matter.
56. One Member asked about the prioritization of countries with regards to the conclusion of cooperation arrangements. The Head of BMIP clarified that this would follow the new approach linking equivalence and cooperation, and that more third countries in coming years will be contacted for the monitoring of the respective existing equivalence decisions. Other Members requested clarification whether – once a set of agreements will have been signed with a third country – CAs would be bound to sign such agreements at national level. The Head of BMIP clarified that, once the set of agreements are approved, no further action would be required at the national level, if not relevant for specific authority. She added that the cooperation arrangements concluded by the EBA are not intended to replace any currently existing arrangements. Rather, the aim is to facilitate the discussion with third countries and ensure a consistent EU approach vis-à-vis third country authorities.
57. Some Members raised questions on the implications for data protection; it was confirmed that the MoUs as drafted now contain a clause on data protection, requiring each authority to process data in compliance with the law applicable in each respective jurisdiction.
58. Regarding resolution FCAs, the SRB representative supported the EBA flexible approach. With another Member, he also recalled the need to follow the due process and to go to RESCO before BoS when it was about resolution agreements.

Conclusion

59. The BoS supported the approach outlined in the equivalent engagement model and the Compendium of cooperation agreements.
60. The BoS agreed that CAs would provide information on existing cooperation arrangements already in place in order to identify the need for supervisory MoU template and the FCA.
61. The BoS supported initiating negotiations with the Argentinian authorities on the basis of the submitted templates.
62. It was also agreed that the negotiation of the supervisory MoU template will depend on the results of the data collection, based on which the need for such template by the CAs should be evaluated. In case that many authorities already have bilateral MoUs for supervision with a specific country, only the cooperation agreement with the EBA and the FCA would be concluded.

Agenda item 9: Synthetic securitisation – Discussion paper

63. In his introduction, the Chairperson mentioned that the EBA had a mandate to develop a report on balance sheet synthetic securitisation that should assess the feasibility of the STS framework for this type of securitisation and determine the respective STS criteria. Based on the EBA report, the Commission may develop a legislative proposal.
64. The Head of BMIP continued by clarifying that since the beginning of 2019, there has been a STS framework for traditional securitization in place, which was eligible for lower 'STS' capital treatment. Such capital treatment was also extended to some specific synthetic SME securitisations, subject to some limitations. In response to the mandate, the EBA conducted an analysis of the synthetic securitisation market developments and trends in the EU, including data on historical default and loss performance. Besides the analysis, the Discussion Paper proposed a list of criteria to be considered when labelling the synthetic securitisation as 'STS', and also contains an analysis of business case for development of STS synthetic product. While the Discussion Paper did not provide any recommendations on potential differentiated regulatory treatment, it did seek stakeholders' input about the possibility, its potential impact and other considerations.
65. The Members generally supported the Discussion Paper and the quality of its content.
66. However, several Members raised concerns with respect to the issue of differentiated prudential treatment, suggesting it may be too early for the discussion at this stage and that some room for manoeuvre should be retained, or suggesting to wait for discussions on this issue at the Basel level. A few of those Members proposed to delete the section 5.5.2 of the Discussion Paper that proposed for discussion one possible alternative for differentiated regulatory treatment within clearly defined conditions and limitations, so as not to create expectations by the industry. One Member proposed to delete the footnote 15. One Member was of the view that the EBA's work might help to develop the market and asked whether more emphasis should be on division between synthetic and traditional securitisation; for example by using a different name for the STS label where this regards synthetic securitisations. Some Members supported keeping a reference to the potential preferential treatment and, consequently, they suggested to maintain the section 5.5.2 of the Discussion Paper.
67. The ECB representative also noted concerns related to the preferential capital treatment. He pointed out the inconsistency with Basel and proposed to include in the section 5.5 a requirement for full cash collateralisation of the credit protection.
68. The Head of BMIP clarified that the reference to one possible alternative for differentiated regulatory treatment under clearly defined conditions and limitations was important and if deleted from the Discussion paper, the EBA would not be able to steer the discussion and gain relevant and targeted feedback from the stakeholders, risking to receive too general input or requests for full preferential treatment instead.

Conclusions

69. The BoS supported the publication of the Discussion paper subject to deletion of section 5.5.2 which outlines one possible alternative for prudential treatment.

Agenda Item 10: EBA's Peer Reviews

70. The Chairperson briefly introduced the item by mentioning that it consisted of two items – the report on the peer review of the RTS on identified staff and a proposal for topics for the next peer review.
71. The Head of Policy Coordination (PAC) Unit briefly introduced the report and mentioned that based on the request from several BoS Members, the Members were invited to send their comments after the meeting. The EBA would update the report to address the comments and circulate it in the coming days.
72. With regard to the next peer review, the Head of PAC explained that the peer review process will be updated as of 1st January 2020 in order to take into account the changes introduced by the ESAs review. He also mentioned that the leaving Executive Director was chairing the Review Panel but due to the changes to the entire process, the EBA was not launching a call of interest for a new Review Panel Chair as this would no longer be relevant when the ESAs review is implemented. Nevertheless, the BoS was asked to select the next topic for the peer review in order to allow EBA staff to prepare the next exercise.
73. Majority of the Members considered all three proposed topics being interesting but agreed that it would be too premature to start the peer review on the package of guidelines on non-performing exposures (topic 1) or on the guidelines on ICT risk assessment under SREP (topic 2). Several Members expressed their support for a peer review on the Joint ESAs Guidelines on the prudential assessment of the acquisition of qualifying holdings (topic 3).
74. The Chairperson concluded that while the BoS considered all three topics being important, because of the prematurity of topics 1 and 2, the BoS agreed that the next peer review should be on topic 3 (qualifying holdings).

Conclusions

75. The BoS agreed that the next peer review should be on the Joint ESAs Guidelines on the prudential assessment of the acquisition of qualifying holdings.

The Agenda item 11: PSD2 implementation and RTS SCA – Update

76. The Chairperson introduced the item by mentioning that the EBA published an Opinion on the elements of strong customer authentication under the RTS on SCA under PSD2 in June 2019.
77. The EBA Head of Unit Conduct, Payments and Consumers (COPAC) summarised that in the Opinion that the EBA had published in June 2019, the EBA accepted that, in order to avoid unintended negative consequences as a result of lack of market preparedness in some

Member States, CAs may decide to work with PSPs and relevant stakeholders, including consumers and merchants, to provide limited additional time before the RTS is enforced, which the EBA would communicate later in the year. This was to allow issuing banks to migrate to authentication approaches that were compliant with SCA, such as those described in this Opinion, and acquiring banks to migrate their merchants to solutions that support SCA. He also mentioned that the flexibility was only made available under the condition that PSPs would set up a migration plan, have agreed the plan with their CA, and would execute it in an expedited manner.

78. The Head of COPAC also explained that, in order to determine the end of the additional time that the EBA made available; i.e. the deadline, the EBA and the NCAs in SCPS launched in July a fact-finding exercise with the industry across all EU Member States and received more than 90 responses from national and EU associations of acquirers, issuers, merchants and consumers. He summarised that almost all respondents asked for a consistent implementation and end date of supervisory flexibility. While half of issuers and acquirers said that they are ready within 3 months, others indicated 6 months. Most merchants said that they would need 6 months for SCA, and 18 months for overall migration due to introduction of so-called 3DS V2.2 protocol. He concluded that based on this feedback and further discussions at the expert level, the EBA would prepare and propose for an Opinion to be submitted to the BoS, with a 12-month deadline, for the BoS to vote on this proposal
79. The Chairperson emphasised a need to communicate quickly on this issue and to introduce one single transitional period for the entire EU, even if a small number of CAs appear to have already communicated on the period and provided extra 18 months.
80. One Member explained that they have disclosed migration plan for their market with 18 months period. He supported having a consistent approach and clarified that the period of 18 months was necessary to address all concerns and changes needed at the national level. He was also of the view that there should be a clear monitoring of the migration and actions that would be taken in the case of deviating from the migration plans.
81. Several Members expressed concerns that other jurisdictions had declared a national migration period before a discussion and agreement had taken place at the BoS. Members generally supported a harmonized approach. However, there was no unanimous agreement on the length of the transitional period and views varied between 12 to 18 months. While some Members were of the view that the introduction the DS V2.2 protocol was, in practice, an update of the existing system and the 12 months period was long enough. Others, mainly from smaller countries, were of the view that, if the industry claims in bigger countries was indeed correct that changed cannot be implemented in 18 months, this would impact other Member States, too. One Member suggested that in the future, a system for progress control throughout the implementation period should be implemented for similar processes in order to ensure timely preparedness and also to avoid negative consequences for consumers.

82. The EC representative supported a coordinated migration and monitoring and emphasised that any further national announcements should be avoided. He declared that the Commission would not be able to tolerate a period longer than 12 months.
83. Some Members were also concerned that they did not have any remit over merchants and that some card schemes operated globally and it was therefore difficult to impose a deadline on them for EU countries only .
84. In his response, the Head of COPAC echoed the concerns raised by some Members over some CAs publishing a national deadline despite the agreement at the expert level that the EBA would develop and communicate a common deadline the EU. In addition, he also confirmed that the request by some Members for intermediate steps of the migration process would be incorporated into the next Opinion. With regard to merchants not being in the scope of CAs, he pointed out that the SCA requirements applied to payment service providers and that it was for them to ensure their merchants were ready to use SCA compliant authentication approaches.
85. The Chairperson concluded that, with every additional month granted the period during which the industry would be in breach of law would be lengthened accordingly. He also confirmed that the Opinion should clearly prescribe actions required from the industry in order to meet the deadline. Although two Members requested to have a vote on the timeline at the meeting, he confirmed that the Opinion would be submitted to the BoS separately for a vote so the entire content of the Opinion could be considered and voted on by Members.

Agenda Item 15: AoB

86. The Director of BMIC informed the BoS about the roundtable held with the European forum for innovation facilitators, during which the topic of so-called stable coins, such as Libra, was discussed. He noted that a case-by-case assessment was needed and to date, none of the European CAs had made any decisions on the regulatory status of Libra, not least due to the lack of information necessary to inform a conclusive analysis. He also noted the global work on stable coins, and in that context pointed to the importance of considering sequencing the work, so that the views of central banks and governments were clear (for example via the FSB work) before any decisions were made on micro prudential issues. Nonetheless, he informed the BoS that the EBA prepared a survey for the CAs in order to monitor developments related to the innovations and to collect information on licencing and other regulatory issues. The EBA was also taking steps, in full coordination with the EC and ESMA, to support CAs in reaching a common regulatory analysis of different crypto-assets.
87. One Member was of the view that the EBA should consider all aspects of Libra and similar innovations which, as per the EBA's January 2019 Report, might not be e-money, nor financial instruments.

88. The EC representative emphasised a need to be unanimous on this issue and in case of doubt CAs should to take a conservative approach. The EC was also analysing the issue and he suggested a continuing close liaison between the EBA and ESMA.
89. The Chairperson concluded that the EBA would monitor the topic and provide a further update at the BoS meeting in December.

Participants at the Board of Supervisors' meeting

19 September 2019, Paris

Chairperson: Jose Manuel Campa

Country	Voting Member/High-Level Alternate¹	National/Central Bank
1. Austria	Helmut Ettl	Karin Turner-Hrdlicka
2. Belgium	Jo Swyngedouw/Jurgen Janssens	
3. Bulgaria	Stoyan Manolov	
4. Croatia	Martina Drvar	
5. Cyprus	Stelios Georgakis	
6. Czech Republic	Marcela Gronychová	
7. Denmark	Carsten Kjaern Joensen	Peter E. Storgaard
8. Estonia	Andres Kurgpold	Indrek Saapar
9. Finland	Jyri Helenius	
10. France	Frédéric Visnovsky	
11. Germany	Peter Lutz	Karl-Heinz Walch
12. Greece	Spyridoula Papagiannidou	
13. Hungary	Csaba Kandracs	
14. Ireland	Gerry Cross/Mary-Elizabeth McMunn	
15. Italy	Andrea Pilati	
16. Latvia		
17. Lithuania		
18. Luxembourg	Christiane Campill	Christian Friedrich
19. Malta	Pierre-Paul Gauci	Oliver Bonello
20. Netherlands	Maarten Gelderman/Sandra Wesseling	
21. Poland	Kamil Liberadzki	Maciej Brzozowski
22. Portugal	Pedro Duarte Neves	
23. Romania		
24. Slovakia	Vladimír Dvořáček/Tatiana Dubinová	
25. Slovenia	Primož Dolenc/Damjana Iglic	
26. Spain	Jesús Saurina Salas/Alberto Rios Blanco	
27. Sweden		Camilla Ferenius
28. UK	Charlotte Gerken	Nigel Fray

¹ Accompanying experts: [Johanna Lutterfelds \(Austrian Financial Market Authority\)](#); Kurt Van Raemdonck (Belgian National Bank); Olga Pajnic (Croatian National Bank); Marek Sokol (Czech National Bank); Julia Blunk (BaFin); Constantinos Botopoulos (Bank of Greece); Kate McKeon (Central Bank of Ireland); Michele Lanotte (Banca d'Italia); Saulius Girduškas (Bank of Lithuania); Olaf Gerritse (De Nederlandsche Bank); Izabella Szaniawska (Polish Financial Supervisory Authority); Jose Rosas (Banco de Portugal); Charlotte Jeppsson (Finansinspektionen); Olena Loboiko (European Commission)

<u>Country</u>	<u>Member</u>	<u>Representative NCB</u>
1. Iceland	Finnur Sveinbjornsson	Örn Hauksson
2. Liechtenstein	Markus Meier	
3. Norway	Morten Baltzersen	Sindre Weme

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

<u>Other Non-voting Members</u>	<u>Representative</u>
1. SSM	Korbinian Ibel/Fatima Pires
2. European Commission	Martin Merlin
3. EIOPA	Kai Kosik
4. ESMA	Joe Heavey
5. EFTA Surveillance Authority	Marco Uccelli
6. ESRB	Tuomas Peltonen/John Fell

EBA Staff

Director of Banking Markets, Innovation and Consumers	Piers Haben
Director of Economic Analysis and Statistics	Mario Quagliariello

Philippe Allard; Jonathan Overett Somnier; Dirk Haubrich; Angel Monzon; Slavka Eley

Tea Eger; Adrienne Coleton; Davide Stroppa; Jana Kovalcikova; Anna Gardella; Bernd Rummel; Djamel Bouzemarene; Anne Tiedemann; Christian Moor; Larisa Tugui; Dragan Crnogorac; Antonio Barzacki