EBA BS 2022 001 rev. 1

Board of Supervisors

08 December 2021

Location: teleconference

# Board of Supervisors 08 December 2021 – 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). 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 informed about BoS membership changes and welcomed a new Alternate representing Luxembourg – Ms Nele Mayer.

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

4. Finally, the Chairperson informed the BoS that the Minutes of the BoS hybrid meeting on 27 October and the Minutes of the Joint BoS/BSG conference call on 28 October 2021 have been approved in written procedure.

### Conclusion

5. The BoS approved the agenda of the meeting.

## Agenda item 2: Update from the EBA Chairperson

6. The Chairperson updated the Members on three items.

7. Firstly, the Chairperson reminded the BoS that the ESRB General Board has recently approved a recommendation for a Pan-European systemic cyber incident coordination framework for the financial sector, which would build on one of the envisaged roles of the ESAs under the upcoming Digital Operational Resilience Act (DORA), to gradually enable an effective EU-level coordinated response in the event of a major cross-border ICT-related incident or related threat having a systemic impact on the Union's financial sector as a whole. The recommendation would essentially launch the preparation of this framework aiming to

endorse the potential roles of the ESAs, as envisaged by the DORA proposal. It proposed the ESAs to jointly carry out relevant preparatory work to consider the potential key elements of the framework and the required resources and needs to proceed with its development. After this, the ESAs could start work on a preliminary analysis of any impediments that could hinder the ESAs' and relevant authorities' abilities to establish the framework and to share relevant and needed information through communication channels in case of a major cyber incident. The ESAs have already initiated discussions on how to take this recommendation forward.

8. Secondly, the Chairperson informed about the upcoming new mandates stemming from the CRR3/CRD6. In detail, there were 56 mandates in the CRR3 proposal, out of which 31 are RTS and 7 GL. Four mandates should be completed in less than 12 months. Similarly, there were35 mandates in the CRD6 proposal, out of which four mandates should be finalised in less than 12 months. Furthermore, a joint work of the ESAs was expected on ECAI (report, CRR3) and ESG stress testing (GL, CRD6). Finally, there was also a joint report with ESMA on minimum haircuts.

9. Thirdly, the Chairperson noted that the EBA published its annual risk assessment of the European banking system. The report was accompanied by the publication of the 2021 EU-wide transparency exercise, which provided detailed information for 120 banks across 25 EEA/ EU countries.

## Agenda item 3: Risks and vulnerabilities in the EU

10. The Director of Economic and Risk Analysis Department (ERA) presented the analysis of current risks and vulnerabilities in the EU banking sector with a focus on the preliminary Q3 2021 supervisory data, the main findings from this year's Risk Assessment Report and on recent market turmoil. He noted that preliminary Q3 results indicated stable profitability and capital trends, and improved asset quality. Structural profitability challenges however remained - margins kept declining while the fall in operating expenses has halted. Most EU banks were well capitalized and had comfortable buffers above capital requirements. He said that there were still concerns for loans to specific sectors and those that have benefited from support measures. Dividend payments and share buybacks plummeted in 2020 due to restrictions on shareholder remuneration. 9% of 2019 profits were distributed by banks in 2020 (before restrictions were announced or due to contractual obligations). In 2021, banks planned to distribute 75% of 2020 profits, with exceptional dividend payments to make up for the lack of payments in 2020. Operational risk losses increased during the pandemic. The number of ICT and cyber-security related incidents were on the rise. On the recent developments, the markets have become more volatile on the back of higher inflation expectations and uncertainties around a tapering of central banks' purchase programmes. Omicron variant related news resulted in a jump in market volatility and a sharp correction in asset prices. European shares were down by around 5% (banks by around 6%) during the last week in November and funding spreads widened across the board. Furthermore, recent repo market wobbles were another sign of vulnerable markets. Repo rates contracted significantly more than unsecured cash rates (ESTR).

11. A presentation by the ECB Banking Supervision representative followed. In his presentation, he focused on bank mergers and acquisitions (M&A) in the euro market. He noted that the value of M&A transactions was only a third compared to before the global financial crisis. Most euro area deals were domestic in which valuation of acquirers (P/B value) was above median. Cross-border transactions usually occurred between banks in neighbouring countries and followed the existing financial exposures between the two countries. Case studies from M&A related to less significant institutions indicated that well executed bank M&A transactions could improve bank profitability over time and that banking system efficiency and stability would likely benefit from further consolidation.

12. A presentation by the French BoS Member followed. The presentation was focused on recent repo market developments, in particular collateral scarcity, market positioning driven by expectations of rate increases and year-end balance sheet constraints. It was noted that tensions on this market were high compared to previous years, and that similar developments were not seen in the US market. She concluded by summarising actions taken by the ECB and national central banks to ease tensions in the euro repo market.

13. Several Members updated on their national developments. A number of Members focused on payment moratoria and said that they have tightened the eligibility criteria. In most jurisdictions, the moratoria have already expired and no significant raise of NPLs has been observed even though some increase was expected. One Member noted that significant institutions have decreased their NPLs recently but there was a slight increase in the inflows of NPLs. However, banks were optimistic that their clients would be able to return to normal repayment when the pandemic measures expire. Many Members confirmed that they would continue monitoring asset quality developments amidst increasing Covid-19 cases. On the recent rise in yields and its impact on banks' lending margins, Members had mixed views. Some Members noted that the lending margins were increasing but some other Members did not confirm similar issues on their markets. One Member highlighted that it was crucial to understand whether the increase in interest rates came as a response to inflationary pressures, risk premium or because of improvements in business activity. With regard to repo markets, many Members were of the view that recent developments were temporary but longer than usually.

14. One Member suggested to include analysis of the vulnerability of the commercial real estate market in future discussions.

15. The ECB Banking Supervision representative stressed that pandemic support measures were still visible, and that performing forborne loans showed slight increase that might predict some increase of the NPLs in the future. Deterioration could be expected but the timing an extent were unsure. He noted that internally their focus continued to be on leverage lending and related developments. With regard to the rise in yields, he was of the view that it was too early to conclude whether the rise was persistent.

16. The Chairperson concluded by noting that there were no signs of significant deterioration but given some early warnings, the EBA would closely monitor market developments.

## Agenda item 4: EU-wide Stress test

17. The Chairperson introduced the item by reminding that at its last meeting in October, the BoS mandated the EBA and its Stress Testing Task Force (STTF) to start working on the introduction of the top-down models for net interest income (NII) and net fees and commissions income (NFCI) and on setting the governance structure of developing and validating these models. Given a limited time to finalise the methodology for the 2023 exercise, the Chairperson highlighted a need for intensive work with sufficient resources.

18. The Director of ERA continued by stressing that the Members of the STTF acknowledged the importance of the need for full transparency on data, models and codes, as well as their thorough validation and to avoid duplication of work, building on the existing ECB models for the 2023 exercise. He summarised the ECB proposal on how to build on the ECB models for NII and NFCI. With regard to the timeline, the Director of ERA said that it rested on the assumption that full access on the models in the secure environment was established for all members by the end of 2021 and that sufficient resources were committed by members for the validation activities starting from January 2022. Finalisation of the methodology, including the BoS approval of the models should be done by June 2022 which, however, would give a very limited period for developing any fall-back options if the models would not deliver the desired outcomes. Therefore, given the challenging timeline for finalising the top-down models for the 2023 exercise, the proposal supported by many STTF members was to also prepare for a fall-back, which would entail maintaining the constrained bottom-up approach, improved based on lessons learnt, while in parallel continue working towards the incorporation of top-down models for NII and NFCI in following exercises. He concluded by saying that the pre-assessment of the existing ECB top-down models for projecting NII (interest rate margins) and NFCI should be done by February 2022. In parallel the bottom-up methodology would be updated in the light of lessons learned in the 2021 stress test. Based on the assessment of the ECB top-down models, a final decision on the implementation of top-down models would be proposed at the April BoS meeting. The decision should also consider the possible use of top-down models to challenge the bottom-up approach under the fall-back.

19. The BoS supported the work and noted that it was important to continue the work with the objective to apply the top-down models on NII and NFCI in the 2023 stress test exercise. One Member questioned the resources issues and asked for detailed information. He also asked whether there would be any additional data collections from banks. Several Members confirmed availably of their experts for the exercise, but some Members informed that they do not have resources, or they are very limited. With regard to the fall-back option, a number of Members were of the view that it was necessary to have it and they also referred to the 2025 exercise and a need to have models for this exercise, in particular on credit risk. Similarly, other Members said that if the validation process would not be sufficient, the implementation of the top-down elements should be postponed. On the other hand, several Members

expressed the call for more ambition and their concern on the progressive decrease in the ambition of the top-down exercise, since they believe that A-plan should continue being the baseline scenario. One Member noted that the fall-back option decreases the urgency to finish the top-down model in time. The Member also noted that it would be embarrassing if we fail to introduce some top-down elements, given that this was communicated earlier. A number of Members stressed the importance of having a full transparency on the models for Members to understand and replicate them, to be in a position to explain and discuss results with banks and to have the models validated for all EU Members, not only for the Banking Union members.

20. The ECB Banking Supervision representative confirmed that the data, codes and models would be accessible to all Members in the dedicated IT space. He said that some additional data request would be necessary from non-Banking Union authorities. He stressed that while the ECB was committed to provide necessary resources, also the CAs would have to contribute and dedicate time and resources, in particular given the very tight timelines. With regard to credit risk models, the ECB Banking Supervision representative added that it would not be possible to start any work before September 2023.

21. The Director of ERA clarified that up to 15 additional resources would be needed and that not all experts would be involved in all aspects of the validation process.

22. The Chairperson concluded by noting divided views on the way forward and said that it was crucial to introduce some top-down elements, while having the fall-back option prepared, but also to accelerate the work on the top-down elements. He also reminded about the relevance that the models are also suitable for banks from non-Banking Union countries and any data sharing needed to ensure sufficient validation should be considered.

### Conclusion

23. The BoS supported the work on the top-down models and on the parallel update of the bottom-up methodology.

## Agenda item 5: Report on stock take exercise on the range of IT supervisory practices and IT risks

24. The Chairperson introduced the item by noting that as one of the measures to continue the monitoring of preparedness to address increasing ICT related risk and as part of the preparatory activities the EBA in the context of the upcoming legislation on Digital Operational Resilience Act (‘DORA’), the EBA has prepared the tabled internal report.

25. The EBA Policy Expert continued by clarifying that the objective of this stock take exercise was twofold: (1) to assess the evolution of the ICT supervisory practices and ICT risks (in the last 7 years) and (2) to assist the CAs and the EBA in identifying any potential challenges ahead of the implementation of the upcoming DORA. He informed that 27 responses were received

from the CAs on the respective questionnaire (26 Member/EEA states and the ECB/SSM), with reference date 31 December 2020. The scope of the questionnaire covered the ICT supervision of credit institutions, payment institutions, electronic money institutions and investment firms. The Policy Expert summarised the main findings of the report and mentioned that almost all CAs expected the financial institutions to intensify their efforts to better manage and address their ICT risks. He further mentioned that all CAs had a specific ICT risk supervision methodology, a clear improvement compared to 2014, and also that all the ICT risks from the ICT risk taxonomy of the EBA Guidelines on ICT Risk Assessment under SREP would be captured under the upcoming DORA. While CAs reported a slight increase on their ICT subject matter experts assigned for the supervision of credit institutions, all CAs reported challenges in building the necessary ICT expertise (also a potential challenge in the context of the upcoming DORA, where sufficient expert resources will be required to perform the various digital operational resilience supervisory tasks). The CAs also noted that the EBA could further support the identification and promotion of best practices and enable cyber security practices sharing across the EU. He concluded by saying that the report would be shared with ENISA to support its active role in supporting the EU to be better equipped and prepared on information security aspects and to communicate the ICT supervisory practices and challenges of the financial sector.

26. The BoS welcomed the report, which provided rich and useful findings, and expressed its support on the work. Many BoS Members acknowledged the importance of the report but asked the EBA to prepare a sanitised version to be shared with ENISA to avoid direct identification of the CAs. One Member mentioned that as of January 2022, and following the enforcement of related legal powers, they would be empowered to directly oversee 3rd party providers. Another Member was of the view that coordination in this area was crucial and that the EBA could play a role in supporting the upscale of ICT expertise across the EU supervisory community. One Member suggested integrating ICT/cyber aspects in the Financial Stability report, such as incidents and costs.

27. The ECB Banking Supervision representative also supported the work and sharing of the sanitised version of the report with ENISA.

28. The Chairperson concluded by noting the support of the BoS and confirmed that the EBA would prepare a sanitised version to be shared with ENISA. He also agreed that the EBA could have a significant role in the area of ICT and that ICT risks should be included in some of the reports prepared by the EBA.

## Conclusion

29. The BoS supported the work on the Report on stock take exercise on ICT supervisory practices and ICT risks.

30. The BoS agreed with sharing of a sanitized version of the Report on stock take exercise on ICT supervisory practices and ICT risks with ENISA.

## Agenda item 6: Response to the Call for Advice on Digital finance

31. The Chairperson introduced the item by clarifying that the aim of the discussion was to collect the BoS' views on the joint-ESA response to the aspects of the Call for Advice (CfA) relating to value chains, platformisation and mixed activity groups (MAGs) which was, after the discussion at the BoS meeting in September, at its final stage as well as on the draft EBA response on the aspects relating to non-bank lending where there was a different timeline and therefore, only the interim findings have been submitted to the BoS.

32. The EBA Senior Policy Expert reminded the BoS that the EC published its Call for Advice on Digital Finance and related issues in February 2021. The EC requested technical advice from the ESAs on fragmented value chains, digital platforms and MAGs. The interim response was discussed with, and approved by, the EBA's BoS in September and submitted to the EC, albeit Members called for a deeper evidence base and more precision to some of the recommendations, notably on MAGs. The final report was requested by 31 January 2022. In addition, the EBA was requested to examine to what extent lending provided by intermediaries outside of the pan-European financial services regulatory perimeter exists in the EU and may evolve recognising the deployment of innovative technologies as a means to reach new customers, on which an interim report was invited by 31 December 2021, and the final report by 31 March 2022.

33. With regard to digital finance, the EBA Policy Expert informed the BoS that following the BoS meeting in September, ESA staff have engaged with CAs in multiple settings to develop the evidence base and supporting text for the recommendations. She summarised the main aspects of the recommendations and said that the ESAs proposed that the European Commission (EC) takes a holistic approach to the regulation and supervision of fragmented value chains and conducts regular assessments to determine whether financial institutions exhibit dependence on certain providers that may not be captured by DORA and represent a risk to financial stability (Recommendation 1); enhance consumer protection to address risks of mis-selling and ensure that disclosures are fit for the digital age (Recommendation 2); prevent financial exclusion and promote further a higher level of digital and financial literacy (Recommendation 3); provide further guidance on the definition of cross-border services in a digital context (Recommendation 4); consider possible ways to strengthen skills and resources available at relevant authorities (Recommendation 5); clarify data protection obligations in AML/CFT compliance and to subject crowdfunding platforms to EU AML/CFT legislation (Recommendation 6); and update or expanse existing consolidation rules (e.g., CRR and Solvency II) and/or create a new bespoke regime (Recommendation 7). In Recommendation 8, the ESAs proposed three interchangeable and/or complementary frameworks for structured cooperation that would promote information-sharing on policy developments in each authorities' respective sector and strengthen market monitoring coverage.

34. A presentation by the French BoS Member followed. In her presentation, the BoS Member focused on the ACPR's non-paper on tackling financial stability risks arising from digital players' entry into the financial industry. She noted that, as digitalisation was blurring the frontier

between categories of financial and non-financial firms, ensuring that supervisors retain the right tools to supervise all meaningful activities within the revamped financial ecosystem is critical and requires a reinforcement of the prudential consolidation perimeter. To that end, they were proposing a three-step approach – (1) Enhancing the regulatory framework for payment services, e-money services and stablecoin issuers through two main axes: i) strengthening prudential rules, including consolidation rules and ii) strengthening the protection of clients' accounts in payment and e-money institutions; (2) Creating a common regulatory framework for non-bank lending, and implementing consolidation rules; (3): Moving towards a more activity-based supervision approach, both within banking groups and for systemic non-bank financial players.

35. The BoS supported the joint-ESA work. One Member acknowledged the importance of ensuring that interests of consumer were covered. Another Member emphasized cross-border operations and related risks and was of the view that there should be a stronger coordination between the CAs and the EBA in this regard. Some Members referred to FICOD and the need for potential review, not only in the context of taking inspiration from the principles in the application to other types of groups, but also to ensure concepts and terms applied for the purposes of the Directive remain fit-for-purpose. One Member pointed out that the Recommendation 7 should be further elaborated on the consolidation side. On this last point, some inspiration may be drawn from the ACPR paper, noting however that the CRR 3 would offer a number of solutions to consolidate MAGs and that, as such, a prior impact assessment should be made before heading in the direction of an automatic consolidation. The same Member noted that a harmonised European framework was key to ensure a free cross border provision of digital services interpreted in a way that is in line with the idea underpinning the Single Market. Other Member noted that the concentration of 3rd party providers was an issue and that the CAs may need to intervene.

36. The EC representative welcomed the recommendations and said that the EC was planning to provide feedback also at the technical level. He stressed that the recommendations should be clear and any further precision would be welcomed. With regard to the non-paper presented by the BoS Member, the EC representative reminded the BoS of the ongoing work on MiCA and the PSD2 and highlighted that there should not be any overlaps.

37. In her response, the Policy Expert confirmed that the EBA would further consider the recommendations in order to improve their drafting and in this regard, have commenced a 'fatal flaw' review with the national experts at the technical level.

38. The EBA Senior Bank Expert informed the BoS that as the part of the CfA, the EC also requested the EBA to examine the extent and potential evolution of non-bank lending in the EU, including as applicable by technology companies and digital platforms; report on the business models and legal structures employed; analyse national rules in place to regulate these activities across the EU; assess to what extent these activities are covered by other EU legislation (e.g. Consumer Credit Directive (CCD) and Mortgage Credit Directive (MCD)); and identify any regulatory and supervisory issues that may limit micro/macro risk management and scaling up

of services cross-border. He clarified that the EBA analysis of non-bank lending focused on entities that were not subject to any sectoral regulations introduced at the EU level and it covered entities such as leasing companies, factoring companies, FinTech lenders/Peer-to-peer lending platforms and BigTech lenders. The interim results of the analysis were based mainly on the responses to a comprehensive survey on non-bank lending run through CAs, as well as desk-based research. He summarised the main findings and said that the types of non-bank lending activities varied across Member States and depended on national regimes regulating such activities. While there were challenges in data availability to precisely define the overall extent of non-bank lending in the EU, the information provided by CAs and other sources indicated that it remained very small compared to credit provided by banks. The interim report already identified some relevant issues and concerns in terms of prudential aspects and supervision, consumer protection and AML/CFT, together with some high-level proposal to address the potential concerns. He concluded by mentioning that the interim report was to be submitted to the EC by 31 December 2021.

39. The BoS supported the work. A few Members were of the view that the findings needed to be based on more solid grounds and would benefit from the SCRePol follow-up questionnaire; some of the proposals put forward in the interim report should be detailed further, and one Member stressed that "buy now, pay later" should be covered by the Consumer Credit Directive and should be harmonized within the EU.

40. The EC representative welcomed the interim findings.

41. In his response, the Senior Bank Expert clarified that further discussions were planned at the technical level before the final submission to the EC by end of March 2022.

42. The Chairperson concluded by noting the support for the work.

## Agenda item 7: Report on green securitization

43. The Chairperson reminded the BoS that according to Article 45a (1) of the amended securitization regulation (SECR), the EBA must deliver a report aiming at developing a framework for sustainable securitization. In conjunction with the review of the securitization regulation and based on the outcome of this report, the EC should submit a report to the European Parliament and the Council on the creation of a specific sustainable securitization framework, together with a legislative proposal, if deemed appropriate.

44. The EBA Head of Risk-based Metrics Unit (RBM) continued by explaining that the aim of the progress note was to inform the BoS about the main findings in preparation of the final report and to present the general policy approach. The overall proposal was to make securitization eligible under the EU Green Bonds Standard (GBS) provided that some adjustments are made to the standard to reflect the specificities of securitization structures. Furthermore, the draft report also investigated the relevance and the policy implications of establishing an additional set of provisions for green securitization in addition to the EU GBS and described the policy

options to design such a framework. He concluded by saying that it was deemed inadequate and premature to establish a dedicated framework for green securitization since the EU green securitization market was still at an early stage of development and the EU GBS has not been adopted and implemented yet. The use of proceeds approach prevailing under EU GBS appeared as a pragmatic during the transition phase and, for the time being, priority should be given to ensure a proper implementation of the EU GBS to securitisation. A dedicated framework may however be pertinent once the EU economy has further transitioned, more green assets become available, and the use of proceeds approach becomes less relevant.

45. The BoS supported the work. Several Members agreed with the EBA's proposal that it was premature to establish a dedicated framework and welcomed the proposal to make securitisation eligible under the EU GBS. They however noted that the report should address in a different context the general issues of the EU GBS that were not specific to securitization, namely the introduction of safeguards for all asset backed green instruments Another Member asked for detailed policy cost and benefit analysis as well as introducing flexible approach to address any future developments. One Member also stressed the need to enhance ESG disclosures to ensure that investors were well-informed about the green credentials of the underlying portfolios. She also noted that the report should mention the issue of synthetic securitisation which fell outside the scope of the EU GBS and the risk of adverse selection of assets if credit institutions were permitted to securitise brown assets without limitations.

46. The EC representative stressed that the interplay with the EU GBS was very sensitive and any departure from this standard had to be well justified. He also mentioned that the cost benefit analysis should cover pros and cos of all options, not only of the preferred ones.

47. The Head of RBM agreed that the report should include a separate section on the EU GBS and that the cost and benefit analysis would be crucial. He also agreed that some flexibility was necessary for the future in order to adapt to the market developments.

48. The Chairperson concluded by noting the support for the general policy approach suggested for the green securitization.

## Agenda item 8: Feasibility study on integrated reporting

49. The Chairperson introduced the item by noting that Article 430c of the CRR2 mandated the EBA to prepare a report to assess feasibility of development of a consistent and integrated system for collecting statistical, resolution and prudential data, as well as to involve the relevant authorities in the preparation of the report.

50. The EBA Director of Data Analytics, Reporting and Transparency Department (DART) explained that the main objective of the project was to find efficiencies in the whole reporting ecosystem, not only to reduce costs for institutions but also increase efficiencies in the use of data on the authority's side. After fact-finding and research through different meetings and workshops with stakeholders, the EBA published a Discussion paper in March 2021. Based on

the feedback received during the consultation period the EBA has prepared the Final report. The report provides an overview on how a feasible integrated reporting system could look like, what are the main principles that would guide the setting up of the system and what were the feasible actions identified in order to achieve an integrated reporting system. In this regard, the report proposed the creation of an Informal joint reporting committee (iJRC) with all authorities until the formal JRC was created. The iJRC would continue the discussions to work on the data dictionary, data granularity, central data collection point and governance. The Director of DART concluded by mentioning that the EC was planning to publish in December a document on EU Supervisory data strategy which aimed to provide a more high-level guidance on data integration and that the EBA would follow with the publication of the report.

51. The BoS supported the report and welcomed the balance found in the final report, with many BoS Members praising the work done. Several Members were of the view that iJRC should be established without further delays and do necessary preparatory work, in particular to develop the common dictionary, harmonisation of data and their increased granularity. A strong governance was crucial as well as taking different needs and settings of the different stakeholders involved in to account, and many Members stressed that all CAs should be involved in the iJRC/JRC and closely cooperate. Furthermore, some Members noted that a collaboration with the industry was a critical success factor. One Member acknowledged that need for changes in the legal framework but reminded of a need to also consider the underlying regulation. Several Members stressed the importance of the cost and benefit analysis to be done during the implementation phase. Two Members raised concerns regarding the feasibility of the integrated reporting system and in particular the central data collection point. They mentioned that the report should not be read as a full endorsement to move to an integrated system as further analysis is needed. Therefore, they asked to clarify in the report that an in-depth cost and benefit analysis would follow as well as discussions with the industry, given that some industry players might be of the impression that the central data collection point would mean less data collections at the national level. One Member highlighted the role and responsibility of the BoS and its steer, specifically with regard to further digitalisation.

52. The SRB representative congratulated the EBA for the work done, supported the publication of the report and said that it was important to establish the common dictionary as the first layer. He also highlighted the need for some degree of flexibility for resolution authorities to meet their data needs.

53. The ECB Banking Supervision representative welcomed the last-minute changes in the report based on their feedback. He was of the view that the cost and benefit analysis should be done before proceeding with the central data collection point. He noted the granularity requirement for semantic integration. He asked for clarification on the timelines and actions and said that the work on the common dictionary should start as soon as possible. Finally, he mentioned that the recommendations in the report should not be mandatory for other authorities.

54. The Chairperson concluded by noting the BoS support with the publication of the report. He agreed that further assessments, cost and benefits analysis and engagement with the industry were necessary.

### Conclusion

55. The BoS agreed with the publication of the Final report – Feasibility study on integrated reporting.

## Agenda item 9: Final report on Pillar 3 ITS on ESG risks

56. The Chairperson introduced the item by noting that the Final Draft ITS on Pillar 3 disclosures on ESG risks put forward the tables, templates, and associated instructions that institutions shall use in order to disclose relevant qualitative and quantitative prudential information on ESG risks, in accordance with Articles 449a CRR and following the mandate to the EBA included in Article 434a CRR.

57. The Director of DART continued by explaining that that these ITS would support institutions in the public disclosure of meaningful and comparable information on how ESG related risks and vulnerabilities, and in particular climate change, may exacerbate other risks in their balance sheet. They would allow investors and stakeholders to compare the sustainability performance of institutions and of their financial activities. Furthermore, they aimed at helping institutions in providing transparency on how they are mitigating those risks, including information on how they are supporting their customers and counterparties in the adaptation process to e.g., climate change and in the transition towards a more sustainable economy. These ITS have been developed in alignment with other initiatives taking place at EU and international level and the EBA was following a sequential approach, with an initial focus on climate-change related risks, given the urgency of the topic and taking into account the data and methodological challenges faced by institutions at this stage. For these reasons, these ITS covered quantitative information only on climate change related risks, including transition and physical risks, the disclosure of a Green Asset Ratio (GAR) and an extended GAR on EU taxonomy aligned activities, and on other mitigating actions, together with qualitative disclosures on the broader scope of environmental, social and governance risks. The ITS should be extended at a later stage, to broaden the scope of the quantitative disclosures. On the timelines, the Director of DART said that the first disclosure reference date was 31 December 2022 (or relevant end-of-year disclosure for financial years not ending in December) and information would be made publicly available by institutions during the first months of 2023, on the same date as the date on which institutions publish their financial statements for 2022 or as soon as possible thereafter. She also explained that there are some phase-in arrangements, with delayed date of application for some of the disclosures proposed.

58. The EC representative then intervened to praise the excellent work but also to raise concerns on the inclusion of the extended GAR requirement. According to the EC representative, this proposal could be seen as an extension of disclosure obligations - beyond the - scope - of the

COM taxonomy DA on the GAR. The EC proposed either to drop this disclosure or to replace it with a provision in the ITS recitals encouraging institutions to voluntarily disclose this information.

59. Following the EC intervention, BoS Members expressed their overall support for the package. A number of Members expressed their specific support for the proposal of requiring institutions to disclose (in the extended GAR) information on the sustainability of exposures towards SMEs and other non-NFRD corporates as a way to address the issues and concerns derived from the exclusion of these exposures from the numerator (only) of the GAR. One Member expressed their support to the EC concerns and to drop extended GAR proposal and pointed out that the taxonomy Delegated Act includes a review clause for 2025, when the information currently proposed in the ITS under the extended greet asset ratio and excluded from the Delegated Act could be reconsidered under the latter. One Member noted that timelines from the CSRD were different than those in the CRR and given that the CSRD might be delayed, there would be several timelines for various reporting. Other Member welcomed the simplification of the ITS and the templates compared to previous drafts but suggested to further simplify by deleting template 9. She also proposed to include a review clause for 2024/2025 in order to allow review and further discussions based on the market developments. Another Member asked to further clarify where to find in the IEA scenario the benchmark indicator for 2030 included in template 3.

60. The Director of DART clarified that the ITS set out a simplified and best-effort approach with regard to the extended green asset ratio. She stressed that there was a need to start collecting relevant data both for risk management and for prudential disclosure purposes also from SMEs.

61. The Chairperson concluded by noting the comments, the concerns by the EC to the approach proposed but at the same time the support by a number of Members to that approach. He said that the ITS would be further discussed at the standing committee level, to confirm members' support to the approach proposed and to discuss the adjustments that could be made to address EC's concerns. The BoS would be approached again via written procedure.

## Agenda item 10: EBA Standing Committees reorganisation

62. The Chairperson introduced the item by noting that despite the changes in the EBA internal organisation and the evolution of its mandates, the organisation of EBA standing committees has been relatively stable since 2011. He stressed the importance of these committees which are open to all competent authorities (CAs) to participate and support the work of the EBA BoS in achieving its strategic priorities.

63. The EBA Head of Policy Coordination Unit (PC) continued by presenting an internal proposal aimed at improving efficiency, consistency and focus by re-organising the number and scope of the existing committees as well as improving the engagement with the members and better reflect the EBA internal organisation so that these committees are better designed to

participate in the execution of the EBA work programme. He said that the EBA has engaged an internal assessment of the standing committees (SC) organisation in Q2 2021, followed by several exchanges with the MB and existing SC co-chairs. The tabled proposal reduced the number of SC to seven, of which four are required by the Level 1 legislation (SCCONFIN, RESCO, AMLSC and ACP). The three remaining ones are dedicated to prudential and resolution policy (SCREPOL), Supervision, innovation and risk (SUPRISC) and Reporting & data (SCREDAT). He concluded by noting that current SC Co-chairs would remain but should update the mandates of their SC during Q1 2022. In parallel, EBA staff would conduct an assessment of existing substructures with a view to streamline to increase their efficiency and reduce the overall costs for EBA and CAs.

64. The BoS supported the EBA's proposal. Several Members were of the view that there should be a separate committee dealing with payments given the importance of the topic and the upcoming PSD3 and its mandates. Furthermore, some Members underlined that payments matters were not necessarily related to consumer protection and therefore should not systematically under the scope of SCCONFIN. A Member also questioned the need to move accounting and auditing matters under the SC on regulation and policy instead of the SC on reporting and data. One Member proposed establishing a platform dealing with legal issues where the CAs could participate and cooperate with the EBA Legal Unit. With regard to thire representation in the SC, some Members asked for flexible wording given that seniority of staff was considered differently at each CAs.

65. The EC representative acknowledged the upcoming review of the PSD2 and said that there might be several mandates for the EBA and therefore, it should be considered whether a separate payments-orientated SC should not remain.

66. In his response, the Head of PC clarified that according to the proposal, working groups would be able to report to those SCs which were the most relevant for a given issue. Therefore, payments and innovation related tasks would not be discussed within one SC but within those which were dealing with discussed topics. On seniority, he explained that the wording in the proposal was flexibly suggesting participations of experts who had capacity to take decision on behalf of their CAs. With regard to the establishment of a legal network, he said that this would be further considered.

67. The Chairperson concluded by noting the BoS support and said that the SC and their Chairs would be asked to re-assess their mandates in the coming weeks. He underlined that they should in particular consider which payment-related matters, if any, should fall under their scope.

### Conclusion

68. The BoS approved the EBA's proposal on standing committees' reorganization.

## Agenda item 11: Q&A action plan

69. The Chairperson introduced the item by noting that with its Q&A work the EBA provided an important service, but that in the last years there was an increase of the backlog of unanswered questions. The approach that EBA staff was proposing to address the backlog was two-pronged: The proposals aim to make a fresh start, requiring careful managing and communication, but also a more streamlined process, with tighter criteria for admitting questions and more timely response, with the aim to avoid any backlogs building again.

70. The Head of PC introduced the discussion - based of the slides provided – by setting out the key backlog figures and the impact and scope of the action plan proposals. He clarified the need for action on the backlog and noted that in the past there has been targeted action in the area of Reporting Q&As. The increase of the backlog was to a degree also related to the adjustments that took place in the context of the ESAs review, with the introduction of Article 16b on Questions and Answers in the EBA founding Regulation, which led to a near freeze of the process. At the same, the volume of outstanding questions continued to grow, partially due to the expanding scope. Some measures have already been taken internally, in the form of the development of a dashboard for the monitoring of progress, work on a more automated workflow, as well as adjustments to the handling of issues on validation rules (in the context of Reporting Q&As). However, limits have been reached in terms of resources that can be assigned to this work. To address the backlog, the proposed action plan foresees rejecting all questions submitted before 01 January 2020, albeit with a possibility to resubmit – and in that case, those questions were to be prioritised. Remaining questions would be reviewed, with a focus on those that have been in the process for more than 9 months. These remaining questions would first be assessed to establish whether they were still relevant, including to see if they are expected to be addressed by future legislation. The aim would be to have a 'clean sheet' by summer 2022. In terms of process adjustments, the EBA's proposal was to tighten the criteria for admitting questions, by assessing the following: - relevance of the question for a broad set of stakeholders; - materiality of the issue in question, - a need for EBA guidance or clarification. Furthermore, the review process of Q&As, including the approval process, would be streamlined, and a review time limit would be introduced. Finally, he stressed the importance of communication aspects, and mentioned that, if approved, the EBA would communicate the reset of the process as well as process adjustments generally and to concerned submitters, and furthermore stress the possibility to resubmit (and prioritise) older questions that would be affected by the reset.

71. The BoS supported the EBA's proposal. Some Members stressed the importance of a careful communication in particular with regard to the questions submitted long time ago and the related possibility to resubmit, given inter alia reputational and, potentially, legal concerns. In that context, one Member also noted that the Q&A process was often the only way for stakeholders to obtain guidance on issues, and that therefore rejections without clear justifications should be avoided. One Member suggested considering a fast-track process for very urgent Q&As which would not require involvement of the Q&A network but only the relevant subgroups. Some Members also asked for clarifications regarding the involvement of CAs in the drafting of proposed answer. Two Members cautioned against requiring

participation of CA participants in Q&A Networks, given that for smaller CAs it was challenging to be represented for all topics.

72. The Head of PC stressed that any communication would have to be carefully considered. While exchanges with the submitters about the relevance of older questions could be envisaged, this would have affected the planning and organisation of the action plan. Therefore, the EBA was planning to prepare notifications for relevant submitters in which it would be clarified that the questions could be resubmitted. By the end of January 2022, the EBA should have a list of all questions that would end up being rejected. On the question of broader participations in the Q&A Networks, he acknowledged the challenges faced by CAs and said that a call for experts would be launched.

73. The Chairperson concluded by noting the BoS support with the EBA's proposals, all the while stressing the importance of careful communications, including the possibility to resubmit, and noting that the BoS should receive regular updates about progress made with regard to the execution of the action plan.

### Conclusion

74. The BoS approved the Q&A action plan.

## Agenda item 12: First draft of the SPD 2023-2025

75. The Chairperson introduced the item by reminding the BoS that the Single Programming Document (SPD) is an annual exercise whose objective is to inform EU institutions on the EBA's mid-term planning including a first sketch of the EBA activities and resource needs. The draft SPD 2023 has been prepared on the basis of the Multi-annual Financial Framework (MFF) and the EC's work programme and its various initiatives and strategies, prominently the MiCA and DORA legislative financial statements (LFS).

76. The Executive Director presented two main aspects of the 2023 SPD – the EBA's multi-annual priorities at the 2025 horizon and the EBA's activities and resource needs in 2023. He briefly summarised the general context for preparing the SPD, especially the relevant legislative initiatives, and noted that the draft had benefited from discussions with the DG FISMA and the Management Board (MB). He clarified that the multi-annual priorities identified last year by the 2024 horizon remained broadly valid with the main difference being that better than expected macroeconomic and financial conditions allowed to embed the COVID-19-response into day-to-day work. He then presented the five vertical priorities of the EBA – Single Rulebook; Risk assessment; Banking and financial data; ICT, Digital finance and operational resilience; and Conduct, consumer protection and AML/CFT; and the horizontal one on ESG. As the tasks and resources dedicated to DORA and MICA remained uncertain for 2023, the same approach as in the previous SPD had been followed, with three scenarios. With regard to resourcing, the number of posts would remain broadly stable by 2025 with the possible exceptions of those related to tasks arising from DORA, MiCA, and AML.  he This would still

allow to absorb an increased workload thanks to efforts made to optimise EBA's operating structure in the course of 2021 (incl. new organisation, introduction of a new team leader role for priority projects and tasks, joint procurements and operational synergies with the other ESAs). From a financial point of view, a slight increase in costs was to be expected driven by the MFF's assumptions regarding the indexation on inflation. Besides, the EBA was planning a decrease in mission and meeting costs and an increase in ICT/security expenses. In this latter regard, the EBA was discussing two additional posts for the IT Unit with EC to strengthen its overall resilience. The current AMLA proposal foresaw a transfer of eight posts by 2024 to the AMLA, which, if confirmed, would require thorough internal planning and organisation, and discussions had started with EC on this. He concluded by summarising next steps which included written procedure to the MB and BoS in January and the submission of the SPD to the EC, European Parliament, and the Council before 31 January 2021.

77. The BoS welcomed the first draft of the SPD. One Member was of the view that ICT related issues would be one of major challenges for the EBA and the CAs and therefore praised the greater importance attached to it and supported more resources for the DORA implementation. Another Member said that monitoring of the Covid-19 pandemic and related moratoria should be done at the national level rather than by the EBA and recommended downplaying the likelihood of a delivery of top-down models for the stress test exercise in 2023. One Member stressed that EBA's value was primarily on the single rulebook rather than on establishing a data hub, questioned whether FinTech and cyber risks should be linked together (as one is more on the conduct side and the other on the operational side) and raised a question about the articulation of priorities arising from several EBA documents (esp. Union-wide vs ESEP vs SPD)

78. The EC representative very much welcomed the SPD and all initiatives underway, mentioned that there would be further discussions on the budget (he took note of the request for 2 more IT posts) and additional tasks for direct supervision with regard to Dora. On AMLA, he noted that the EC and the EBA would have to find some practical solutions on the posts to be transferred for the EBA to AMLA and said that in this regard, national contributions would be reduced. He also encouraged the use of an activities-based budgeting.

79. In his response, the Executive Director explained that the EBA was considering how to introduce the activity-based budgeting. On the monitoring of the moratoria, he said that relevant standing committees would further discuss the issue. He also confirmed that as part of the different reorganisation initiatives, the focus on the single rulebook was confirmed. He clarified that the Union-wide priorities and risk picture fed into the definition of EBA's priorities as a regulatory body, as well as into the definition of priorities for supervisory agencies (ESEP).

80. The Chairperson concluded by noting the comments and said that the written procedure would be launched on the updated SPD in January.

## Agenda item 13: AOB A) Stress test 2022 – Decision

81. The Chairperson reminded the BoS that according to Article 22 of the EBA Regulation, the EBA should consider every year whether it is appropriate to carry out or not an EU-wide stress test and inform the European Parliament, the Council, and the Commission accordingly. The proposal was to run the next EU-wide stress test in 2023 in line with an earlier BoS decision to aim for a biennial EU-wide stress test. Therefore, the EBA was not planning to run an EU-wide stress test in 2022 but would still perform its regular annual transparency exercise.

82. The BoS did not raise any comments.

83. The Chairperson also informed the BoS that after the meeting, the EBA would circulate for information and as part of the lessons learnt, an internal EBA report covering the quality assurance of the 2021 EU-wide stress test exercise, as required by the Quality Assurance Manual. The report provided, for the first time since the EU-wide stress test was run, an overview of the quality assurance process and explained how the EBA quality assurance feedback was embedded in CAs' internal tools. The report has also taken into consideration one of the ECA's recommendation contained in their 2019 assessment of the EU-wide stress test.

84. The Chairperson concluded by noting the BoS support not to carry out the EU-wide stress test in 2022.

### Conclusion

85. The BoS agreed that the EU-wide stress test should not be carried out in 2022. Therefore, the next EU-wide stress test was planned to be carried out in 2023.

## Participants of the Board of Supervisors' conference call 08 December 2021[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 | Radoslav Milenkov/Stoyan Manolov | |

[1] Liga Kleinberga (Financial and Capital Market Commission); Jose Rosas (Banco de Portuga); Kurt Van Raemdonck (NBB); Luca Serafini (Banca d'Italia); Brita Hrenovica (Finanstilsynet); Gina Fitzgerald, Eida Mullins, Amanda Hartley (Central Bank of Ireland); Pawel Gąsiorowski (Narodowy Bank Polski); Vincent Woyames Dreher (ECB); Pascal Hartmann (FMA); Marek Sokol (CNB); Liza Lunstroo, Carljin Elemans, Jurriaan Paans (DNB); Matthias Hagen (OENB); Valerie De Bruyckere (EC); Edoardo Rulli (EC); Christian Elbers; Julia Blunck (BaFin);

| | | |
|---|---|---|
| 4. Croatia | Sanja Petrinic Turkovic | |
| 5. Cyprus | Constantinos Trikoupis | |
| 6. Czech Republic | Zuzana Silberová | |
| 7. Denmark | Thomas W. Andersen | Jes Klausby |
| 8. Estonia | Andres Kurgpold | Timo Kosenko |
| 9. Finland | Jyri Helenius | Katja Taipalus |
| 10. France | Emmanuelle Assouan | |
| 11. Germany | Peter Lutz | Karlheinz Walch |
| 12. Greece | Heather Gibson/Kyriaki Flesiopoulou | |
| 13. Hungary | Csaba Kandracs | |
| 14. Ireland | | |
| 15. Italy | Andrea Pilati | |
| 16. Latvia | Santa Purgaile/Ludmila Vojevoda | Andris Vilks |
| 17. Lithuania | Simonas Krepsta/Renata Bagdoniene | |
| 18. Luxembourg | Claude Wampach | Christian Friedrich |
| 19. Malta | Pierre Paul Gauci | Oliver Bonello |
| 20. Netherlands | Maarten Gelderman/Sandra Wesseling | |
| 21. Poland | Kamil Liberadzki | Olga Szczepanska |
| 22. Portugal | Ana Paula Serra | |
| 23. Romania | Cătălin Davidescu | |
| 24. Slovakia | Tatiana Dubinova/Linda Simkovicova | |
| 25. Slovenia | Primoz Dolenc | |
| 26. Spain | Angel Estrada/Alberto Rios Blanco | |
| 27. Sweden | Karin Lundberg | David Forsman |

| **EFTA Countries** | **Member** | |
|---|---|---|
| 1. Iceland | Elmar Ásbjörnsson/Unnur Gunnarsdottir | |
| 2. Liechtenstein | Elena Seiser | |
| 3. Norway | Morten Baltzersen | Sindre Weme |

| **Observer** | **Representative** |
|---|---|
| 1. SRB | Sebastiano Laviola |

| **Other Non-voting Members** | **Representative** |
|---|---|
| 1. ECB/SSM | Stefan Walter, Carmelo Salleo |
| 2. European Commission | Martin Merlin |
| 3. EIOPA | Benedetta Di Lupidio |
| 4. ESMA | Tomas Borovsky |
| 5. EFTA Surveillance Authority | Marta Margret Rúnarsdóttir |
| 6. ESRB | Andreas Westphal |

**EBA**

| | |
|---|---|
| Executive Director | Francois-Louis Michaud |
| Director of Economic and Risk Analysis Department | Jacob Gyntelberg |
| Director of Data Analytics, Reporting and Transparency Department | Meri Rimmanen |

**Heads of Unit**

Philippe Allard; Pilar Gutierrez; Dirk Haubrich; Angel Monzon; Lars Overby; Jonathan Overett Somnier

**EBA experts**
Tea Eger; Diana Gaibor; Guy Haas; Elisabeth Noble; Andreas Papaetis; Davide Stroppa; Erika Sole; Nicola Yiannoulis

For the Board of Supervisors

Done at Paris on 19 January 2022

José Manuel Campa

EBA Chairperson