



EBA BS 2016 075rev1

EBA Staff

04 February 2016

Location: London

EBA Board of Supervisors – Final Minutes

Agenda item 1.: Restricted session

Agenda item 2.: Welcome, Approval of Agenda and Minutes

1. The Chairperson opened the meeting. He informed of changes to the Board of Supervisors (BoS) membership of the Belgian National Bank (Mr Jo Swyngedouw would become the new member replacing Mr Mathias Dewatripont), the Latvian Financial and Capital Market Commission (the Chairman and member, Mr Kristaps Zakulis, had resigned as Chairman; Ms Jelena Lebedeva would become the new alternate replacing Ms Liga Kleinberga); and Liechtenstein's Financial Markets Authority (Mr Patrick Bont would become the new observer, and Mr Heinz Konzett, the alternate to the observer).
2. The Chairperson suggested adding a new item on SSM's policy stance on supervision of branches to the agenda. The BoS approved the agenda. The BoS also approved the minutes of the BoS meeting of 08-09 December 2015.

Agenda item 3.: Extension and Upgrade of the Contracts of the Chair and Executive Director

3. In light of the confirmation by the European Parliament of the extension of the mandate of the Chairperson, and the approval by the Board of Supervisors (BoS) of the extension of the mandate of the Executive Director, the alternate Chairperson presented to the BoS a proposal to upgrade the grading of their contracts. He informed that this upgrade, in line with the Guidelines on Staff Policy in the European Regulatory Agencies (ADMIN C(2005)5304 of 16 December 2005), had been discussed and agreed with the Commission services, was included in the EBA 2016 establishment plan. Furthermore, he requested the BoS authorisation to sign the Chairperson's contract renewal.
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Conclusion

4. The BoS approved the proposals presented by the alternate Chairperson. The contract renewal and upgrade would be effective from the starting dates of the second mandate of the Chairperson and the Executive Director.

Agenda item 4.: Selection of New Members of the Banking Stakeholder Group

5. The Chairperson presented a shortlist of candidates for membership of the Banking Stakeholder Group (BSG) since the mandate of the majority of the current members would expire in April 2016. He explained that the proposal had been discussed at the meeting of the Management Board (MB) of 19 January 2016. It represented a balanced exercise between and within categories of stakeholders, including geographical and gender balance based on the applications received. He also presented a reserve list of candidates in case any of the candidates in the shortlist was not available. He sought the views and support of the BoS.

Conclusion

6. The BoS approved the shortlist and reserve list of BSG candidates.

Agenda item 5.: Update on Risks and Vulnerabilities

7. The EBA Director of Oversight presented an overview of risks and vulnerabilities in the European banking system, and focused in particular on: a) the risk dashboard, which reflected some improvements in capital ratios and profitability although the latter remained subdued; b) the volatility in markets, with rising yields and spreads in particular for AT1 debt spurred by the uncertain economic environment, the effects of the low interest rate environment on bank profitability, and a repricing of AT1 debt to reflect the risk of conversion or write-down and suspension in payments, as well as questions over the calculation of maximum distributable amount (MDA) - referring to concerns voiced by analysts, he also asked for the BoS's views on whether the EBA could take any action to dispel remaining regulatory uncertainty; c) finally, he proposed to the BoS some changes to the timetable of the publication of EBA risks reports - in particular, their frequency would be reduced (e.g. one risk assessment report (RAR) annually). He also noted that questions had been raised about the sample of banks and associated time series of data available in annual transparency exercises. In particular, the BoS has previously encouraged the EBA to remain consistent in samples over time and across products where possible. The reduction in the sample size for the 2016 EU wide stress test had therefore led to questions about transparency information for the wider sample of banks. To that end the EBA staff would return with a proposal to align the sample of banks subject to the transparency exercise with the risk assessment report and would aim to ensure that the annual release of transparency data was retained for that sample, also in 2016.

8. The Chair of the Standing Committee on Oversight and Practices (SCOP) presented a letter to BoS where he reflected on SCOP's views on risks, which focused on five areas: situation regarding credit growth; regulatory and accounting challenges, namely concerning MREL/TLAC, accounting standards IFRS 9, internal model review and different implementation across EU jurisdictions of Pillar 2 requirements; risks coming from financial technology companies (FinTech); the situation in emerging market economies and in the commodities markets; and low profitability.
9. The member from Bank of Portugal informed the BoS on the measures imposed in respect of Banif in 2015 following discussions with the European Commission's DG Competition and the ECB Supervisory Board; and on Bank of Portugal's decision of 29 December 2015 on the transfer of Novo Banco's assets.
10. Members commented on the various topics discussed. Some noted that it was becoming more and more important to bring clarity on the bail-in regime in general, in particular on subordinated instruments, and felt that supervisors had a responsibility vis-à-vis institutions to provide more information. They noted that clarity was also needed during the transition phase as well as on the interplay with insolvency proceedings. The Chairperson agreed that it was necessary to increase clarity on resolution matters and in particular on MREL decisions.
11. Members discussed the current volatility in markets and its relation to MDA calculations. Some opined that it was necessary to increase market transparency concerning Pillar 2 capital requirements; but also viewed that it was crucial to ensure consistency on the approach in order to have a better understanding of possible shortfalls in institution's capital requirements. The impact of macroprudential buffers was also mentioned as a possible cause of market volatility and rising yields. The EBA Director of Oversight acknowledged that it appeared necessary to discuss further with CAs to better understand all issues around MDA and how they could be addressed.
12. On the review of internal models, some members expressed the importance, in light of the compromise at the meeting of the Group of Governors and Heads of Supervision (GHOS) on 10 January 2016, to ensure clarity of the messages conveyed to the markets.
13. The ESRB representative asked BoS members whether there was interest in setting up a working group to look into ways of having access to stable sources of funding.

Conclusion

14. The BoS approved the changes to the timeline for EBA Risk Reports.

Agenda item 6.: EU-wide 2016 Stress Test: Main Changes to the Methodology and Discussion on Scenarios

15. The Chairperson introduced a discussion on the methodology and scenarios for the 2016 EU-wide stress test. He clarified that a full package comprising of methodology, adverse macro-

economic scenario, risk-type specific scenarios and quality assurance manual would be submitted for final approval by written procedure further to which the package would be published by end-February. The Chairperson noted that he had a concern on the scenario in relation to house prices, which seemed subject to a mild decline in relation to the current heightened prices experienced in some jurisdictions; he called for consistency with any macro prudential concerns and measures.

16. The EBA Director of Oversight presented the methodology, which had been discussed and supported by the Stress Test Task Force (STTF). He noted that the original direction from the BoS was to make the methodology both simple and conservative. However, he raised to the attention of the BoS that EBA staff were concerned that several recent adjustments were making the methodology less conservative. For example, the implementation of one-off adjustments would be complex and reduce conservatism, and asked them to be cognisant of this also in the context of the Chairperson's comments on the scenario. He proceeded to clarify that only a very few issues remained open on the methodology of which the only significant one was the approach to net interest income (NII), for which different alternatives had been discussed within the STTF and which the majority had supported a modest two notch downgrade compared to the three notch downgrade which the EBA staff had promoted. Further, he explained other elements of the 2016 stress test exercise, such as the quality assurance, which remained the responsibility of competent authorities (CAs) although the EBA remained available to provide minimum guidance, including setting high-level standards to be followed by CAs. He also noted the FAQ process for addressing banks questions would have to involve more formal sign offs in 2016, also drawing on lessons from the way that they had been used in 2015, and thus would not be as fast and flexible as in previous years. With regard to one-off adjustments, he explained that all those approved by CAs should be communicated to the EBA by end-March and subsequently discussed by the STTF and communicated to the BoS as there were likely to be a large number, some of which may be contentious. He finally explained the FAQs process and the timelines envisaged.
17. On the calibration of the idiosyncratic shock component on NII, the BoS agreed with the two notch downgrade but a member presented an additional proposal; he viewed that the proposal on the table could be perceived as overly severe when compared with the shocks to the sovereign spreads. He thus suggested a re-calibration to reduce the shock by a discount factor which in his view, would result in a better consistency between the methodology and the macroeconomic scenario. Members discussed the merits of both options, and whilst the EBA staff warned that this proposal did not appear to have a relation with the scenario and further reduced conservatism, a majority of members favoured the alternative proposal.
18. Another member inquired on the approach envisaged in the methodology for institutions' unused property as well as on the pass-through obligation for deposits held by custodian institutions.

19. The ECB representative presented the adverse macro-economic scenario which had been approved by the ESRB General Board on 3 February. He explained the risks and the financial and economic shocks, and the impact on the EU GDP, HICP inflation and property prices.

Conclusion

20. Upon finalisation of the methodology, the EBA would submit to the BoS for approval by written procedure the 2016 EU-wide stress test package (methodology, adverse macro-economic scenario, risk-type specific scenarios and quality assurance manual) such that it could be published by end-February 2016.

Agenda item 7.: Lessons learnt from the 2015 Transparency Exercise Report

21. The EBA Head of Legal presented the EBA internal report on the publication of individual bank by bank data during the EBA 2015 transparency exercise in light of the publication of an error of the fully loaded common equity tier 1 (CET1) ratio figures of some banks. The report had been previously discussed by the Management Board, and was the result of an internal review to understand what had gone wrong and how the EBA could improve its processes. The report included some recommendations, which focused on a) ensuring data correctness before publication; b) greater public transparency; and c) improvements to governance to strengthen existing processes relating to transparency exercises, the reporting Q&A process and the reporting process itself. He also commented on some of the suggestions raised at the Management Board.

22. Members welcomed the report and the fact that the incident had been handled promptly and satisfactorily. They opined that it was important to minimise the occurrence of such incidents by properly strengthening reporting processes. The Chairperson clarified that, during the 2015 transparency exercise, the data had been checked with all institutions before their publication; however the problem had turned out to be a mistake in a calculation formula.

23. Likewise, members warned against changes to the reporting Q&A process which could result in it becoming more burdensome. One member asked to consider a more structured and transparent process for sharing and circulating comments and/or suggestions by CAs in the drafting/preparation stage of templates and draft reports to minimise incidents.

24. The overall majority of members found the report's recommendations adequate and effective, and considered that the EBA should now move forward with their implementation.

Conclusion

25. The BoS took note of the report and agreed to the recommendations on the review of data before publication. It also agreed to the Standing Committee on Accounting, Reporting and Auditing (SCARA) looking into ways of ensuring consistency in dealing with mistakes and corrections within the reporting process. With regard to the public communication of the

findings of the internal report, it would be done together with the publication of the methodology and scenario for the 2016 EU-wide stress test. The BoS also agreed not to implement the recommendation concerning the reporting Q&A process. Finally, the BoS opted for the EBA reviewing the implementation of the recommendations agreed, for which a report to the BoS would be presented by end-2017.

Agenda item 8.: CRDIV-CRR/Basel III Report June 2015 (Public Report + Annex/Internal Report)

26. The Chair of the Task Force on Impact Studies (TFIS) presented the main findings of the 9th EBA's Monitoring Report on CRDIV-CRR / Basel III, based on data as of end June 2015. He proposed a publication timing similar to that of the BCBS. Noting the importance of quantitative impact studies (QIS) for calibration purposes for both the BCBS and the EU-stance on internal models, the Chairperson invited members to ensure that a sufficiently representative sample of institutions in their jurisdictions, including those from non-BCBS countries, participate in the additional QIS exercises being performed in 2016.

27. Members commented on various issues, in particular on the evolution of the liquidity coverage ratio (LCR), on the shortfall of liquid assets, and on the number of G-SIBs constrained by the leverage ratio requirement, and on the EBA work to assess cumulative impacts, envisaging simultaneous compliance of institutions with all relevant regulatory capital and liquidity ratios. One member said that work on interactions and impact should not be put into the public domain.

28. On the publication of the report, a few members opined that the data contained in the report was not stable enough and that in some cases, there was the risk of misinterpreting it.

Conclusion

29. The BoS endorsed the reports, the public version of which would be published at the same time as the BCBS report.

Agenda item 9.: Liquidity - Way Forward on the draft RTS on Additional Collateral Outflows for Derivative Contracts

30. The Chairperson reminded the BoS that the Commission had informed the EBA by letter of December 2015 that it intended not to endorse the draft RTS on additional collateral outflows for derivative contracts, under Article 423(3) of Regulation (EU) No 575/2013. These final draft RTS had been submitted by the EBA in March 2014. In its letter, the Commission explained the reasons for its intentions, amongst others its preference that the RTS should follow more closely the BCBS approach on netting.

31. The Chairperson, expressing his dissatisfaction with the Commission having reacted 20 months after the EBA's submission, asked the BoS whether it would agree to sending a dissenting

Opinion to the Commission, or alternatively resubmitting the final draft RTS following the approach suggested by the Commission. The Chairperson reminded the BoS that the EBA would need to carry out extensive work, in particular a QIS, and that due to resource constraints, the work was unlikely to start shortly; he therefore asked for support from CAs in order to conduct this work.

32.A majority of members supported resubmitting the final draft RTS in line with the suggestions outlined by the Commission in order to ensure alignment of the RTS with BCBS.

Conclusion

33.The EBA would liaise with the Commission services to clarify the terms of the resubmission of the RTS.

Agenda item 10.: Final draft ITS on Mapping of External Credit Assessments for Securitisation Positions

34.The Chairperson presented the final draft ITS on the mapping of external credit assessment institutions' (ECAI) credit assessments for securitisation positions under Article 270 of Regulation (EU) No 575/2013, and explained that these ITS were intended for use within the securitisation framework to establish consistent mappings between ECAIs with historical performance data and others without such data.

35.Members broadly agreed with the proposed ITS. Some comments were raised with regard to the possibility of establishing a monitoring framework for ECAI performance; also, that despite the lack of quantitative data, it would be advisable to design a quantitative framework to ensure better consistency with corporate ratings.

Conclusion

36.The BoS adopted the final draft ITS.

Agenda item 11.: Draft Report on SMEs

37.EBA staff presented the main findings of the report, addressed to the Commission, on SME lending and riskiness, in the context of the capital discount for SMEs (SME supporting factor) as mandated under Article 501 of Regulation (EU) No 575/2013. The report contained some recommendations, which were explained to the BoS. The BoS was informed that before submitting the report to the Commission, the EBA would organise a roundtable with industry to present it.

38.Members welcomed the report and viewed that it contributed positively to the debate on SMEs lending.

- 39.They commented on some of the recommendations. Some supported a continued monitoring of the capital impact of the SME supporting factor, both in terms of impact on lending and consistency with riskiness. On the recommendation to consider a more granular approach in adjusting the capital treatment of SMEs, some members questioned the conclusion on impact on internal models of the SME supporting factor, and asked the EBA to look again at this. EBA staff agreed to clarify this recommendation.
- 40.Some members also commented on the need to elaborate a harmonised definition of SMEs. The report found that Member States used their own definition, and considered that a harmonised definition could lead to better implementation and consistency in the regulation and comparable data on SMEs. Members expressed different views on developing such a harmonised definition.
- 41.On the recommendation to further develop other sources of funding to provide other feasible market-based alternatives to SMEs, it was questioned whether this report was the right place to do so. EBA staff agreed that the articulation of this recommendation should be better clarified.

Conclusion

- 42.The BoS agreed with the SME Report, which would be amended to reflect the discussion and comments raised by members. Should any changes result further to the planned industry roundtable, the report would be resubmitted to the BoS for approval by written procedure and transmission to the Commission.

Agenda item 12.: Final draft Guidelines on Cooperation Agreements between Deposit Guarantee Schemes

- 43.The Chairperson presented own-initiative Guidelines to facilitate effective cooperation between deposit guarantee schemes (DGS).

Conclusion

- 44.The BoS adopted the Guidelines.

Agenda item 13.: Report on the Functioning of Colleges

- 45.EBA staff presented the 2015 report on the functioning of colleges, which contained an overview of the EBA approach on monitoring of EEA colleges; it also listed findings based on the EBA staff annual assessment of colleges and in particular their performance based on the 2015 EBA Action plan for colleges.
- 46.One member expressed his concerns with the section on requests to individual recovery plans; and noted that the report had not been discussed with supervisors prior to tabling it at the BoS

meeting. EBA staff noted that the report reflected the feedback obtained from colleges; and that the same process had been implemented in previous reports.

Conclusion

47. The BoS took note of the report and agreed to its publication. But subject to the assessment of the drafting suggestions to be submitted by members, the report would be circulated to the BoS for approval by written procedure should those suggestions be not accepted by the EBA.

Agenda item 14.: Standard Templates for AT1

48. EBA staff explained that further to the BoS agreement to foster harmonisation of issuances, a set of standardised terms and conditions covering prudential aspects for AT1 issuances had been developed, and which was the result of the monitoring work of AT1 issuances by EU banks. The idea was to discuss the templates in a roundtable with industry by end-February. The endorsement of the templates would be sought later from the BoS by written procedure.

Conclusion

49. The BoS praised the work presented and agreed with the way forward.

Agenda item 15.: Reports from Standing Committees

50. The BoS took note of the Standing Committees' reports.

Agenda item 16.: AoB

51. The ECB SSM representative presented a draft paper on the SSM stance on supervision of branches from EEA countries. He explained that one of the main principles set out in the draft stance was reciprocity between home and host supervisors as well as proportionality (i.e. intensity of supervisory involvement) based on the risk profile and systemic significance of the branches.

52. Members welcomed the opportunity to discuss the SSM paper as it articulated some fundamental issues of relevance for the EBA and CAs. The BoS agreed that there were a lot of important open issues that were highlighted in the paper which needed to be discussed further. Some members suggested the idea of the EBA working on a cooperation protocol to facilitate bilateral agreements between the SSM and non-SSM countries; also, and considering that branch supervision touched on a variety of issues (e.g. consumer protection; proportionality and freedom of establishment within the EU), dimensions (both micro and macroprudential) and other matters which raised some difficulties (e.g. joint decisions on capital and liquidity) they considered important that the EBA took a role in this important issue.

53. One member opined that the SSM position paper raised some important issues that should be addressed, e.g. implications for the internal market of the different approaches of supervision of branches inside and outside the SSM. He also viewed that a clear mapping of responsibilities between CAs for the supervision of branches was necessary.

Conclusion

54. The BoS welcomed the SSM stance paper and agreed to discuss further on this topic at a subsequent meeting. It was agreed that SCOP would start looking at it and carry out some preparatory work.

END OF MEETING

Andrea Enria

Chairperson

Participants at the Board of Supervisors' meeting

04 February 2016, London

Chairperson: Andrea Enria

| Country | Voting Member/Alternate¹ | Representative NCB |
|-------------------|--------------------------------------------|---------------------------|
| 1. Austria | Michael Hysek | Philip Reading |
| 2. Belgium | Jo Swyngedouw | |
| 3. Bulgaria | Dimitar Kostov | |
| 4. Croatia | Damir Odak | |
| 5. Cyprus | Argyro Procopiou | |
| 6. Czech Republic | - ² | |
| 7. Denmark | Jesper Berg/Sean Hove | Peter E. Storgaard |
| 8. Estonia | Andres Kurgpõld | Indrek Saapar |
| 9. Finland | Anneli Tuominen | Jouni Timonen |
| 10. France | E. Fernández-Bollo/F. Visnovsky | |
| 11. Germany | Raimund Röseler | Erich Loeper |
| 12. Greece | Spyridoula Papagiannidou | |
| 13. Hungary | Kornél Kisgergely | |
| 14. Ireland | Cyril Roux/Gerry Cross | |
| 15. Italy | Luigi F. Signorini | |
| 16. Latvia | Jelena Lebedeva | Vita Pilsuma |
| 17. Lithuania | Renata Bagdonienė | |
| 18. Luxembourg | Christiane Campill | Pol Simon |
| 19. Malta | Raymond Vella | Alexander Demarco |
| 20. Netherlands | Jan Sijbrand/Olaf Sleijpen | |
| 21. Poland | Andrzej Reich | Maciej Brzozowski |
| 22. Portugal | Pedro Duarte Neves/M. Adelaide Cavaleiro | |
| 23. Romania | Nicolae Cinteza | |
| 24. Slovakia | Vladimír Dvořáček/Tatiana Dubinová | |
| 25. Slovenia | Miha Kristl | |
| 26. Spain | Fernando Vargas/Cristina Iglesias-Sarria | |
| 27. Sweden | Uldis Cerps | Olof Sandstedt |
| 28. UK | Sasha Mills | Fiona Mann |

¹ Accompanying experts: Ingeborg Stuhlbacher (Austrian Finanzmarktaufsicht); Veerle De Vuyst (National Bank of Belgium); Marek Sokol (Czech Česká Národní Banka); Julia Blunck (BaFin); Maurizio Trapanese (Banca d'Italia); Martine Wagner (Commission de Surveillance du Secteur Financier du Luxembourg); Tijmen Swank (De Nederlandsche Bank); Izabella Szaniawska (Polish Financial Supervisory Authority); Urška Arh (Bank of Slovenia); Mei Jie and Christine Boykiw (UK's Prudential Regulation Authority)

² Represented by Mr Ivan Zahrádka

Country**Observer**³

- | | |
|------------------|--------------------|
| 1. Iceland | Jon Thor Sturluson |
| 2. Liechtenstein | Heinz Konzett |
| 3. Norway | Morten Baltzersen |

Non-voting Members**Representative**

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|------------------------|-----------------------------|
| 1. SSM | Korbinian Ibel ⁴ |
| 2. European Commission | Mario Nava |
| 3. EIOPA | _ ⁵ |
| 4. ESMA | Verena Ross |
| 5. ESRB | _ ⁶ |

Observer**Representative**

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|--------|---------------------|
| 1. SRB | Dominique Laboureix |
|--------|---------------------|

EBA Staff

- | | |
|------------------------|-------------------|
| Executive Director | Adam Farkas |
| Director of Oversight | Piers Haben |
| Director of Regulation | Isabelle Vaillant |

Slavka Eley; Mario Quagliariello; Delphine Reymondon; Lars Overby; Spyros Zarkos; Corinne Kaufman; Jonathan Overett Somnier; Santiago Barón-Escámez

³ Representatives from central banks: Jonas Thordarson (Central Bank of Iceland); Arild J. Lund (Norges Bank)

⁴ Accompanied by John Fell (ECB)

⁵ Represented by Andrew Candland

⁶ Represented by Tuomas Peltonen