



EBA BS 2018 077rev1

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28 February 2018

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Location: London

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## Board of Supervisors – Final Minutes

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### Agenda item 1.: Approval of Agenda

1. The Board of Supervisors (BoS) approved the agenda of the meeting.
2. The Chairperson informed of changes to the BoS membership of the Polish Financial Supervision Authority (Mariusz Hadjuk as new high-level alternate), the Swedish central bank (David Forsman as new representative) and the European Central Bank's Supervisory Board (Francois-Louis Michaud as new alternate).
3. A presentation was shared with the BoS on the proposed scope and timeline for EBA's work on the EU implementation of Basel III reforms. The EBA's work should be based on a Commission's Call for Advice (CfA); a wider variety of institutions would be captured for the analysis, normally not included in the scope of BCBS-QIS. The Commission representative noted that the timelines suggested by the EBA were aligned with the Commission's planning of publishing a CfA by April/May; finalisation of the EBA's work in June should be compatible with the likely timeline of the Commission's legislative proposal. The Chairperson invited the BoS to discuss policy options at the 18-19 April meeting.

### Agenda item 2.: Update on EBA Internal Reorganisation

4. The Executive Director informed the BoS of the EBA's internal reorganisation. He noted the three main objectives, notably, a) simplify and streamline the structure; b) reflect evolving EBA's priorities; and c) maximise staff retention by providing staff with new opportunities. He explained the assignment of tasks to the new units, and said that resources would be allocated to reflect such reassignment. Even if some tasks had been assigned to individual units, specific expertise for such tasks would also remain within other units to ensure an adequate integration of functions, e.g. on Q&As. It was also added that it had been decided not to affect the EBA's standing committees and other substructures with a view to ensuring a proper horizontal engagement across the organisation.
5. The Executive Director briefed the BoS on the state-of-play of the EBA's relocation project. Further to some discussions with the European Parliament, a property advisor had been procured to short-list premises in Paris, in addition to the ones already included in the French bid to host the EBA; an initial short-list had been received already. The European Parliament had also requested to explore possible synergies with ESMA and the European Union Institute for

Security Studies (EUISS), both based in Paris. He noted that the main risk to the project deadline (end-March 2019) remained the tight timelines to procure and complete the fit-out should the selection of premises be delayed. The Management Board is being regularly updated on the relocation progress.

### Agenda item 3.: Renewal of Banking Stakeholder Group (BSG)

6. The Chairperson sought BoS approval to initiate the process for renewal of membership for the Banking Stakeholder Group (BSG). He noted that, although the proposals for the ESAs' review included some changes to the mandate and term of the BSG, these had not been anticipated in the proposed renewal documents. A few adjustments had been included in the proposed call for expression of interest, notably a reference to investment firms and to the UK leaving the EU. He asked members to help disseminate the call for interest through their competent authorities (CAs) to ensure a wider reach-out to the relevant professionals.

#### Conclusion

7. The BoS approved the BSG renewal process.

### Agenda item 4.: EBA Financial Education Report 2017/18

8. In view of the EBA's mandate to review and coordinate financial literacy and education initiatives by CAs, EBA staff presented the first financial education report, based on the information entered into the EBA's repository and focused on initiatives in respect of products falling under the EBA's consumer protection mandate.
9. Members praised the report and supported its publication. Some asked for an English translation of the executive summary of the education materials in the EBA's repository such that these could be shared and used by CAs.

#### Conclusion

10. The BoS approved the publication of the financial education report 2017/8. The Standing Committee on Consumer Protection and Financial Innovation (SCConFin) would reflect on possible steps to ensure continued sharing of experiences and good practices among CAs and explore possible enhancements in the EBA's coordination role.

### Agenda item 5.: Technical Advice on Statutory Prudential Backstops for NPEs

11. The Chairperson introduced a discussion on the EBA's report in response to the Commission's CfA on assessing the impact of its proposal on statutory prudential backstops for newly originated non-performing exposures (NPEs). He noted that the study had relied on existing data rather than an ad-hoc data collection in view of the short timeframe to conduct the study. Amongst other things, he stressed the heterogeneity of country results, due to the different

position in the cycle of different Member States in the years projected forward. He also emphasized the challenges to communicate the results given the strong assumptions and the long timeframe for the assessment of the impact on the CET1 ratio. He noted that the ECB had also conducted an impact assessment, but with different results due to methodological divergences. The Director of Regulation provided a more detailed presentation of the results and conclusions of the EBA report.

12. The ECB representative referred to the study carried out by the ECB and pointed out that the reconciliation efforts conducted by EBA and ECB staff allowed to better understand the main methodological drivers of the differences. He said that this was an evolving area that merited close monitoring taking into account the introduction of IFRS9. On the EBA report he noted two main issues, notably the country variability, and the use of simple averages rather than weighted averages for the calculation of the capital impact.
13. Members commended the report given the timelines and data constraints. They expressed a note of caution when interpreting the results, in particular with regard to country data. A majority of members opposed their publication given their wide heterogeneity and the number of caveats needed to explain correctly such variability. A few members, though, noted that such variability was one of the interesting results of the report, and would benefit from some form of communication.
14. In view of the assumptions on which the report was based, members noted that the publication of the report should be accompanied by a number of caveats to explain and interpret the results. In this regard, the EBA was asked to communicate clearly that the results of the quantitative analysis should be read as an upper bound to the expected capital impact. It should also stress that, in view of the static nature of the historical parameters, the results should be viewed as a plausible estimation of what the situation would have been if the prudential backstop had been introduced in 2014 and banks had chosen not to take any actions to address loan origination issues or increase provisioning; for those reasons, the actual capital impact would be likely be significantly different.
15. Noting that the scope of the report had been limited to a Pillar 1 measure, as per the Commission's CfA, there was a request to consider a nuanced message with regard to Pillar 2.
16. The Commission representative said that the Commission intended to publish a package of measures on NPLs by 13 March including Pillar 1 backstops. He noted that some minor adjustments would be needed to the credit risk framework. He agreed that it was important to articulate very clear caveats on the quantitative results as well as the potential capital impact in view of the conservative assumptions. He asked to present the capital impact based on both median values and weighted averages.

## Conclusion

17. The Chairperson concluded the discussion noting the main points, namely presenting the capital impact based on the weighted average, too; dropping country results from the published report;

and giving due prominence to the caveats for a proper understanding of the results, in particular using the wording of paragraph 150 of the report. Members were invited to send their final comments to the EBA, which would publish the report on 13 March.

## Agenda item 6. : EBA Report on Credit Risk Mitigation (CRM) Framework

18. The Head of Credit, Market and Operational Risk Policy Unit presented the report, which was part of the regulatory review of the IRB approach and would be submitted to the Commission as technical advice in view of the CRR review. Amongst other things, it was suggested to develop EBA Guidelines on credit risk mitigation (CRM) under the Advanced-IRB approach (A-IRB).

19. Members welcomed the report. It was noted that an opportunity was being missed to align the process agreed at Basel for the treatment of SA guarantees in the Advanced-IRB. In response, it was explained that such alignment would be sought in the EBA Guidelines on CRM under the Advanced-IRB, but it was agreed to include a clarification on this point and consider this further in the coming work on the Guidelines.

20. On the Funded Credit Protection (FCP) under the Foundation-IRB, one member highlighted that under the newly agreed Basel standards, institutions could not use their own estimates, which should be considered in the subsequent work in this area.

### Conclusion

21. The BoS approved the report, taking into account the comments raised in the discussion.

## Agenda item 7. : Discussion on Proposed 2018 EU-wide Transparency Exercise

22. The Head of Risk Analysis Unit informed the BoS that the process for the transparency exercise in 2018 would be similar to that of years 2016 and 2017. He gave details on the sample and reference dates for the 2018 exercise, and noted that the timeline had been modified to avoid possible overlaps with the 2018 EU-wide Stress Test exercise. He said that the final templates should be completed by April and tabled at the BoS 18-19 April meeting for approval.

### Conclusion

23. The BoS approved the proposed timeline.

## Agenda item 8.: Update on Risks and Vulnerabilities

24. The Head of the Risk Analysis Unit gave an update of risks and vulnerabilities in the European banking system. He confirmed the improving trends of CET 1 and NPL ratios, including in jurisdictions the most affected by high NPL levels. In terms of banks' profitability, the Return on Equity (ROE) remained stable, even if the net interest margin had decreased slightly in Q3.
25. With regard to Brexit-related risks, the reduction in direct exposures of EU27 banks to the UK on both asset and liability sides had now levelled off. The Head of Risk Analysis Unit referred to the assessment of banks' contingency plans for which the EBA had collected information on four main topics, namely, reliance on data centre, CCP access, contract continuity, and funding market access. From the detailed information collected from the Bank of England and the ECB, Brexit contingency planning did not appear to be a priority for many banks.
26. Members shared their views on the risks and vulnerabilities assessment. One member referred to the floating rates for mortgages and suggested considering the risks in case of a sharp upward adjustment in interest rates. Another member noted the future development of monetary policy as a possible driver, which could positively affect banks' profitability, but may severely impact consumers, if prudent 'payments-to-income' criteria were not applied. Finally, there was a call for a more forward-looking approach to the risk assessment and a proposal to set up a specific cyber risks register.
27. The Head of Risks Analysis Unit noted the possible data constraints for the analysis of fixed-and variable rates, and confirmed that possible effects of interest rates changes on banks would be taken into account in the 2018 EU-wide stress tests.

## Agenda item 9.: Discussion on Brexit-related Issues

28. A discussion took place without the presence of members from the UK Bank of England's Prudential Regulation Authority (PRA).

## Agenda item 10. : Draft Consultation Paper on Guidelines on Effective Risk Management of Non-Performing and Forborne Exposures

29. EBA staff presented a draft consultation paper and explained that the scope had been aligned with the harmonised EBA definition for non-performing and forbearance. With a view to identifying credit institutions that would need to establish an NPE strategy and related operational framework, a threshold set at 5% of NPL ratio had been proposed in the consultation paper. The Guidelines also included some requirements for banks to consider suitable maximum periods for full impairment coverage or write-offs.
30. There was broad agreement with the consultation paper. Some members expressed their concerns with the calibration of the threshold; others opposed setting any threshold at all. Some

criticism was voiced against the threshold as an automatic trigger for the application of relevant chapters of the Guidelines, and its consequences on the disclosure and reporting framework.

31. Some members suggested making the threshold more targeted and using a combination of indicators to replace it. It was also proposed to leave some flexibility to CAs to establish the threshold depending on national conditions.
32. A remark was made that some paragraphs in the consultation paper did not seem aligned with the Consumer Credit Directive (CCD). EBA staff would look into it should it need to be addressed before the publication of the consultation paper.

### Conclusion

33. The BoS supported the publication of the consultation paper. The Chairperson took note of the comments on the threshold and agreed to discuss further the matter upon the conclusion of the public consultation.

## Agenda item 11. : Establishment of a Taskforce on EUCLID Implementation

34. The Executive Director updated the BoS on the European centralised infrastructure for supervisory data (EUCLID) project. He proposed the establishment of a joint EBA/ECB Task Force on EUCLID Implementation (TFEI) to facilitate the steering of the project. The TFEI would be co-chaired by an EBA Director and an ECB senior representative, and it would be open to national CAs, including central banks where applicable, from both SSM and non-SSM countries, which would be invited to appoint up to two senior experts with the necessary seniority within their organisations. Any decisions by the TFEI would need first to be approved by the ECB's Supervisory Board before their submission to the BoS for approval. The Executive Director also clarified that the BoS' approval of the establishment of the TFEI would be suspended in its effects, as the ECB's Supervisory Board had to approve it too.
35. Members broadly supported the establishment of the TFEI and its mandate. Some members voiced their concerns on possible additional, and changes to, data validation and asked for automatic "straight-through" delivery of reported data. Some also expressed their preference for the involvement of the Standing Committee on Accounting, Reporting and Auditing (SCARA) on the steering of the project given its relevant expertise.
36. The Executive Director confirmed that no changes to data validation and data quality checks would take place as a result of the establishment of the TFEI and the project implementation. He also said that, although reporting to the BoS, the relevant Standing Committees would be kept informed, where necessary.

### Conclusion

37. The BoS approved the establishment of the TFEI and its mandate; this approval would be conditional on the ECB's Supervisory Board final approval.

## Agenda item 12.: Annual Report on Assessment of Functioning of Colleges 2017

38. The Head of Supervisory Convergence Unit presented the annual report on functioning of colleges, which provided an assessment of colleges work in 2017 and identified achievements and areas for further improvement. The report included an assessment of 20 closely-monitored colleges in the form of individual scorecards.

39. There was a request to remove the reference to the assessment and identification of MREL instruments from the list of key topics for supervisory attention in 2018, for this task should be rather for resolution colleges.

### Conclusion

40. The BoS adopted the annual report, that would be published together with the 2018 EBA Colleges Action Plan.

## Agenda item 13.: Feedback on the EBA's Discussion Paper on FinTech and proposed Roadmap

41. The EBA Director of Oversight presented the EBA's proposed roadmap on FinTech, based on the Discussion Paper published in August 2017 and the feedback received during the consultation. The roadmap took into account the mandates for the EBA included in the Commission's Action Plan on FinTech, due for publication in early March. The BoS was asked to endorse the roadmap and its publication.

42. Members welcomed the roadmap and agreed with its content and publication. They made several comments, notably to restrict the number of priorities to FinTech-specific ones; to widen the scope of action for virtual currencies and link the EBA's work with the international initiatives in the area; to provide further clarity on the different approaches (e.g. regulatory sandboxes) to FinTech; and to include resolution aspects. The ESMA representative noted the work done on the consumer-side, in particular, the Joint Committee report on automation of financial advice, and suggested including it in the roadmap. One member referred to the work done by her CA over the past 10 years, and advised against approaching FinTech as a homogeneous set of firms, noting that not all starts-ups presented innovative features, whereas incumbents may also present FinTech features.

43. The Chairperson said that virtual currencies was an area on which regulatory activities would soon be taken, and noted that a discussion would possibly take place during the G20 March meeting. He noted that it could be premature to move to full regulatory coverage of such an

heterogeneous set of initiatives, which would hamper a clear definition of virtual currencies and therefore a well identified scope for supervisory activities.

### **Conclusion**

44. The roadmap would be adjusted in line with the comments raised and in light of the Commission's Action Plan on FinTech, and would be submitted to BoS for a final fatal flaw check before its publication.

## **Agenda item 14.: Reports from Standing Committees**

45. The BoS took note of the reports.

## **Agenda item 15.: AoB**

### **Oral Update on Supervisory Convergence**

46. The Head of Supervisory Convergence Unit referred to the discussion at the BoS 24-25 October 2017 meeting on the issues identified with some CAs concerning non-compliance with the SREP Guidelines. She said that there had been bilateral contacts with those CAs, which had committed to address such issues. Further contacts would take place to monitor the implementation of the EBA's recommendations.

### **Oral Update on Equivalence**

47. An update on the EBA's work on equivalence assessment was provided. The Republic of Serbia would be added to the list of countries to reassess, further to changes introduced in its regulatory framework. Members were reminded of the importance of this work, and were asked to support the EBA Network on Equivalence with more experts in particular in the areas of credit risk, securitisation and market risk.

### **Update on Online Training**

48. An update on the EBA's online training was presented to BoS, noting the achievements in 2017 and the online training catalogue for 2018.

### **European Court of Auditors' audit of stress test**

49. The Executive Director informed that the European Court of Auditors was auditing the 2016 EU-wide stress test, and asked CAs to cooperate should they be contacted for the audit.

### **END OF MEETING**

**Andrea Enria**

**Chairperson**

## Participants at the Board of Supervisors' meeting

28 February 2018, London

Chairperson: Andrea Enria

<u>Country</u>	<u>Voting Member/High-Level Alternate</u> <sup>1</sup>	<u>National/Central Bank</u>
1. Austria	Helmut Ettl/	Karin Turner-Hrdlicka
2. Belgium	Jo Swyngedouw/David Guillaume	
3. Bulgaria	Dimitar Kostov/	
4. Croatia	/Sanja Petrinić Turković	
5. Cyprus	Stelios Georgakis/	
6. Czech Republic	Zuzana Silberová/	
7. Denmark	Jesper Berg/	Peter E. Storgaard
8. Estonia	Andres Kurgpõld/	Indrek Saapar
9. Finland	/Jyri Helenius	Paavo Miettinen
10. France	Édouard Fernandez-Bollo/F.Visnovsky	
11. Germany	Raimund Roeseler/	Erich Loeper
12. Greece	Spyridoula Papagiannidou/	
13. Hungary	Csaba Kandrács/	
14. Ireland	/Gerry Cross	
15. Italy	Luigi F. Signorini/Andrea Pilati	
16. Latvia	- <sup>2</sup>	Vita Pilsuma
17. Lithuania	Vytautas Valvonis/	
18. Luxembourg	/Martine Wagner	Norbert Goffinet
19. Malta	Marianne Scicluna/	Oliver Bonello
20. Netherlands	Jan Sijbrand/Olaf Sleijpen	
21. Poland	Andrzej Reich/	Maciej Brzozowski
22. Portugal	Pedro Duarte Neves/José Rosas	
23. Romania	Nicolae Cinteza/	
24. Slovakia	Vladimir Dvořáček/Tatiana Dubinová	
25. Slovenia	Marko Bošnjak/Damjana Iglič	
26. Spain	Jesús Saurina Salas/	
27. Sweden	- <sup>3</sup>	David Forsman
28. UK	/Sasha Mills	-

<sup>1</sup> Accompanying experts: Ingeborg Stuhlbacher (Austrian Finanzmarktaufsicht); Kurt Van Raemdonck (National Bank of Belgium); Marek Sokol (Czech National Bank); Julia Blunck (BAFin); Constantinos Botopoulos (Bank of Greece); Maurizio Trapanese (Banca d'Italia); Laura van de Werfhorst (De Nederlandsche Bank); Izabella Szaniawska (Polish Financial Supervisory Authority); Nigel Fray and Cairiona Doris (Bank of England's PRA)

<sup>2</sup> Represented by Maija Valce

<sup>3</sup> Represented by Karin Lundberg

<u>Country</u>	<u>Member</u>	<u>Representative NCB</u>
1. Iceland	Jon Thor Sturluson	Guðrún Ögmundsdóttir
2. Liechtenstein	-	
3. Norway	Per Jostein Brekke	Arild Lund

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

<u>Other Non-voting Members</u>	<u>Representative</u>
1. SSM	Korbinian Ibel <sup>4</sup>
2. European Commission	Martin Merlin <sup>5</sup>
3. EIOPA	- <sup>6</sup>
4. ESMA	Verena Ross
5. ESRB	-
6. EFTA Surveillance Authority	- <sup>7</sup>

**EBA Staff**

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

Mario Quagliariello; Slavka Eley; Lars Overby; Jonathan Overett Somnier; Philippe Allard; Santiago Escudero; Meri Rimmanen; Cédric Coraillon-Parquet; Santiago Barón Escámez

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<sup>4</sup> Accompanied by Jérôme Henry

<sup>5</sup> Accompanied by Olena Loboiko and Elleonora Soares

<sup>6</sup> Represented by Kai Kosik

<sup>7</sup> Represented by Per Christian Baeroe

## ANNEX

In accordance with provision 3.12 of the Rules of Procedure of the EBA Board of Supervisors (EBA DC 001 (Rev 03) of 11 December 2013, the following written procedures have been submitted to BoS since the meeting of 11 December 2017:

Name	Action	Launched on	Outcome communicated on
Press release accompanying the publication of the EBA NPL templates	Comments	11 December 2017	14 December 2017
Draft Report on Liquidity Measures under Article 509(1) of the CRR	Approval	12 December 2017	18 December 2017
Updated Quantitative Analysis on MREL	Approval	12 December 2017	19 December 2017
Q&As 3339, 3441, 3456, 3513 and 2255	Approval	12 December 2017	18 December 2017
EBA 2017 Amending Budget	Approval	12 December 2017	20 December 2017
Report on Statutory Prudential Backstops	Comments	12 December 2017	N/A
Updated EBA Opinion on transition from PSD1 to PSD2	Approval	14 December 2017	19 December 2017
Draft Guidelines on uniform disclosure format	Approval	14 December 2017	08 January 2018
Basel reform ad-hoc cumulative impact assessment report	Approval	15 December 2017	20 December 2017
Draft Minutes Joint BoS-BSG meeting 24 October	Comments	19 December 2017	N/A
Final Report on Implementation of EBA Guidelines on Methods for Calculating Contributions to DGSs	Comments	19 December 2017	N/A
Questionnaires on Joint Opinion on ML/TF risks affecting the EU's financial sector		19 December 2017	N/A
EBA Opinion and Report on the Use of 180 DPD Criterion	Fatal flaw check	20 December 2017	N/A
Annual Declaration of Interests	Submission	05 January 2018	N/A
Joint Opinion on Innovative CDD Solutions	Approval	05 January 2018	15 January 2018
Risk Dashboard and Risk Assessment Questionnaire	Comments	08 January 2018	N/A
Non-objection of approved draft Guidelines on uniform disclosure format	Non-objection	08 January 2018	16 January 2018
List of institutions waived from 75% Inflow Cap LCR	Approval	08 January 2018	17 January 2018
Questionnaires on Joint Opinion on ML/TF risks affecting the EU's financial sector	Comments	09 January 2018	N/A
Draft minutes BoS 11 December 2017	Comments	16 January 2018	24 January 2018
Single Programming Document 2019	Approval	19 January 2018	26 January 2018
EU-wide Stress Test 2018 adverse macroeconomic scenario and market risk shocks	Approval	23 January 2018	30 January 2018
Vacancies on the Banking Stakeholder Group (BSG)	Approval	23 January 2018	31 January 2018
Notification under Art 458 CRR of NBB on the implementation of macroprudential measures	Comments	23 January 2018	07 February 2018
Letter to the Commission on the RTS on SCA and CSC under PSD2	Comments	24 January 2018	N/A
Draft minutes BoS 11 December 2017	Approval	24 January 2018	01 February 2018
Draft Minutes Joint BoS-BSG meeting 24 October	Approval	24 January 2018	01 February 2018
Review Task Force on Authorisations Qualifying Holdings and Acquisitions membership	Comments	02 February 2018	N/A
EBA Letter to respond to the consultation paper issued by the Monitoring Group for reforming the international audit standard-setting process	Approval	02 February 2018	09 February 2018
Joint ESAs warning to consumers on virtual currencies	Approval	06 February 2018	12 February 2018
ECB Top Down Credit Risk benchmark package	Approval	06 February 2018	12 February 2018
Draft EBA Opinion on NBB's Notification on Measures in accordance with Article 458 CRR	Comments	07 February 2018	15 February 2018
CRDIV-CRR/Basel III Monitoring Exercise Report - June 2017	Comments	09 February 2018	16 February 2018
Notification (Art 458 CRR) of HCSF on the implementation of macroprudential measures	Comments	15 February 2018	02 March 2018
EBA Opinion on NBB's Notification on Measures in accordance with Article 458 CRR	Approval	15 February 2018	21 February 2018
Joint Committee Final Report on Big Data and Consumer Information Document on Big Data	Approval	19 February 2018	05 March 2018
CRDIV-CRR/Basel III Monitoring Exercise Report - June 2017	Approval	16 February 2018	01 March 2018
JC draft Spring 2018 Report on Risk and Vulnerabilities	Comments	26 February 2018	N/A