

2 March 2011

Minutes of the second EBA Board of Supervisors meeting

London, 2th March 2011

Agenda item number 1: Opening and approval of the agenda

1. The Chairperson opened the meeting, his first as Chairperson. He noted that the EBA's process will be different from CEBS. In particular, Members will be Board of Supervisors (BoS) Members first and foremost, before representing national interests. Moreover, the BoS would provide a top down steer to the policy development process going forward to steer the technical working groups.
2. The Chairperson noted the very busy agenda and suggested an away day in the mid year to hold a longer and more informal discussion on the mission statement and the role of the EBA in improving supervision and lessons from the crisis.
3. The Agenda was approved.

Agenda item number 2: Election of Executive Director

4. The Chairperson explained the procedure. The Chairperson noted that the European Parliament (EP) would need to confirm the appointment and the Chairperson passed on a message from the EP.
5. The candidates were called in alphabetical order and they gave a short presentation and answered questions from the Chairperson and Members.
6. A secret ballot was held and the Chairperson announced the detailed results verbally pronouncing Adam Farkas as the new Executive Director, subject to EP's confirmation.

Agenda item number 3: Vulnerabilities and state of play EBA risk assessment

7. The Chairperson noted the importance of frank discussions about vulnerabilities and in future we may ask observers to leave the room when confidential issues are being discussed. He then handed over to the Alternate Chairperson.
8. The Alternate Chairperson introduced the subject and asked whether the note captured the vulnerabilities. A series of comments were made on the risks identified:
 - The EBA should give further thought to its segmentation of risks in its note as this may not chime with the ESRB approach, also explaining the differences coming from micro perspective of the EBA assessment;
 - Members noted the striking weight given to credit risk to large corporates and SMEs when from macro perspective it is believed that the situation has improved;
 - Members nonetheless noted that the key risk was sovereign risk and the lack of capital and liquidity in the system as well as the risks of disorderly exit from special liquidity support measures;
 - Changes in regulation (including changes in US regulation that would impact dollar funding).
9. The Alternate Chairperson noted that the latter two issues require political solutions and the EBA should bring this out clearly in its note. The EBA could also do further work on monitoring how banks are preparing for exits from extraordinary liquidity measures, and participate in discussion of planning the exit strategies together with the ESRB, as well as look more into the restructuring of relevant banks.
10. An overview of the valuations and provisioning problems they recently faced. The Chairperson noted the implications for the stress test and the starting point across banks, especially with respect to the accurate valuation and provisioning information. Better information on non-performing loans is key and solvency ratios must be improved, noting that standard rules apply for well diversified banks. Lack of uniform definitions and data for NPL and restructured loans is very challenging in its own right. One Member noted that external scrutiny of their own oversight activities would be very welcome and the role the EBA could play in this regard.
11. The Chairperson noted the importance of setting out more detailed and consistent information on asset quality (definitions and disclosure) as well as rules for the harmonised disclosure of certain financial indicators would be helpful, along the lines of the work

performed by the US agencies. This could be undertaken by the future standing committee on reporting.

12. Members noted that the risk assessment notes to the EFC and ESRB would be circulated by written procedure. Members also noted that further encouragement should be given for the provision of timely and comprehensive information, especially quantitative data, in relation to the risk assessments.

Agenda item number 4: EU –wide stress testing exercise 2011

13. The Chairperson emphasised the importance of achieving credible results in the exercises.
14. The Chairperson noted that the scenarios and sample had been agreed, although BoS Members were urged to include any other weak banks in the sample.
15. The Chairperson outlined three key points that required agreement:
 - capital treatment;
 - sovereign stress; and
 - communication.
16. The Chairperson noted that other stress tests are ongoing, by the IMF with harsh assumptions against full Basel III and sovereign stress applied to the Banking book and the US Fed stress against 5% Core Tier 1 benchmark.
17. The Chairperson proposed using a Core Tier 1 definition of 5% of Own Funds. One member expressed a deep concern that the scenario is not tough enough, and pointed that a way to compensate for that would be to agree on a sufficiently high pass-through threshold. The same member argued that high and credible pass-through threshold is important because analysts will anyway be able to re-calculate results in case the commonly agreed threshold is perceived as being too low by the markets. There were differing views and Members noted the risks of front running future regulatory changes. There was a vote by a show of hands to determine the answer. 7 Members voted against the 5% core Tier 1 proposal and so it was carried.
18. However, Members noted that there were a number of choices concerning the exact definition of core Tier 1. Using the 2008 CEBS guidelines was one option whilst other members referred to article 57a of the CRD 2. The EBA staff would circulate a short note in the week starting 7 March outlining the issue to seek agreement on the exact definition.
19. On the sovereign stress, Members discussed whether the sovereign stress should be extended beyond the trading book to those assets

classified as available for sale in the banking book. Members held different views noting market expectations that it should be extended but also noting that such a stress would materially have no impact because prudential filters would back out the impact on the P&L. This would be very challenging to communicate. Therefore Members preferred to focus on improved disclosure by disclosing all EEA sovereign exposures in the trading book and banking, identifying debt classified as both Assets For Sale and Hold to Maturity along with the relevant maturities of the claims.

20. Members also noted that such a stress might influence banks behaviour and act as a disincentive to hold government bonds even if that went against good liquidity practice.

21. The Chairperson summarised that the majority of Members preferred to restrict the sovereign shock to the Trading Book and focus instead on improved disclosure to the Trading book and Banking Book, broken down by AFS and HTM as well as maturities.

22. The Chairperson outlined a proposed communications plan as follows:

- Release a high level methodology note and scenarios to the banks on 4th March;
- Hold a teleconference and release a full methodological note on 11th March;
- Release the methodology and sample on 18th March;
- and Release a high level methodology in [April-TBD].

23. Members gave general support to the communications plan and The EU Commission highlighted the importance for all (Commission, ECB, EBA and national authorities) to agree a clear communication strategy and to implement it in a consistent way. Members agreed it was imperative that everyone stuck to the centrally driven communications plan.

24. Finally there were questions about the static balance sheet in the face of difficult choices on funding. Members agreed with the general principle that the cost of funding should be impacted but requested that if the technical group was unable to find a solution then it should be raised by written procedure.

Agenda item 9 (a). EBA opinion on Commission paper on Bank Recovery and Resolution

25. The Chairperson requested that the sequencing of the agenda be altered because of time constraints.

26. Members agreed and discussed the first draft EBA opinion. Members suggested some changes to the proposal notably paragraph 30, relating to asset transfer expanding the financial stability of individual institutions to the financial system of member states.

Some Members also suggested that the text should ensure that Members can intervene directly on the bank and remove it from the control of shareholders. Other Members proposed ensuring proportionality in the production of recovery and resolution plans. They also noted the risks of putting a joint decision as a principle requirement when a crisis may require a timely decision. Members also asked for some caveats to be included and asked that the 6 month exception from the scope of debt write down should be removed. Some members noted that - in times of crisis - the role of EBA at a maximum can be non-binding mediation, not binding mediation

27. The Chairperson noted that there were clearly different views, in particular on the issues of asset transfer, reflecting the different views of home and host supervisors.
28. The Chairperson suggested that the BoS delegate to the EBA staff, along with the EGPR Chair, to find a solution on intra-group financial support, in particular by asking the Commission to ensure adequate safeguards for host countries are in place
29. In addition a general comment about lack of systemic crisis dimension in COM paper should be included. On bail-in the reference to 6 month maturity debt should be deleted and a staged approach between contractual and statutory debt write-down should be included.

Agenda item 5: Budget 2012

30. Members were updated on the 2012 budget and asked to approve the budget as outlined in the paper. The acting Secretary General noted that the Commission might however restrict any increase in the budget. Members were therefore asked to approve the budget as a maximum.
31. Members approved the Budget.
32. On premises, members agreed the EBA would focus on staying in Tower 42 for the next few years and would appoint an external consultant to help with the procurement process. They agreed that the EBA should expand in Tower 42 in the short term.
33. On common supervisory culture, a written procedure would be followed, noting that the easiest way forward would be an exception from the procurement process.

Agenda item 6. EBA member organisation

34. A package was submitted for endorsement containing the proposed Standing Committees, and their respective Chairpersons, and that these Chairpersons would, with the Directors of the EBA, focus on

relevant priorities and develop the Standing Committees' sub groups and work programmes for discussion at the EBA's BoS in the future. The Chairpersons of the Standing Committees and the Directors of the relevant EBA cluster would also agree on Chairpersons of the Standing Committees' sub groups. The package was agreed and the structures should start as soon as possible. Until that time the existing structures would continue.

35. Members also supported the proposed Sub-Committees of the Joint Committee, noting they were subject to the approval of EIOPA and ESMA.
- i. A Sub-Committee on Financial Conglomerates
 - ii. A Sub-Committee on Anti Money Laundering
 - iii. A Sub-Committee on Cross Sectoral Developments, Risks and Vulnerabilities
 - iv. A Sub-Committee on Consumer Protection and Financial Innovation

Agenda item 7. Banking Stakeholder Group

36. The Chairperson introduced the item noting the importance of respecting the quotas in the regulation. He noted two outstanding issues:

37. Should the EBA appoint the Chairperson of the BSG, or should the BSG's Chairperson be selected amongst its members.

38. Should EU federations be allowed to observe with a suggestion that no observers are allowed in keeping with other ESAs unless the Group decides otherwise

39. Members agreed the BSG would appoint its own Chairperson and agreed that the EBA would not recommend observerships but the BSG could decide for itself. Some Members questioned one or two appointments based on the criteria in advance and on the exclusion of previously active Members of the Consultative Panel in the new Group. However noting the challenges of the different quotas Members approved the package with the exception of one potential BSG member who would be reviewed as to whether his application was correct.

Agenda item 8. IT project

40. Members noted the update on the IT project.

Agenda item 9 (b) Monitoring of capital issuances

41.The Chairperson introduced this as an important point to avoid regulatory competition and increase the quality of capital. The Chairperson suggested postponing this for a full discussion at the BoS meeting in June. Members agreed with this postponement.

Agenda item 9 (c) Principles for developing BTS

42.The Chairperson noted that the principles would allow guidelines to be introduced in an appropriate form. The principles were adopted.

Agenda item 9 (d) Continuation of regulatory floors

43.Members agreed to request that the EU Commission include a continuation of the Basel I regulatory floors to end 2012.

Agenda item 9 (e) technical standards on reporting

44.Members agreed with the proposal in the paper.

Agenda item 10 Technical standards on reporting

45.The Chairperson asked Members to review the note particularly paragraphs 17 and 18 and agree binding technical standards (BTS) on all reporting which covers regular data needs of EBA.

46.Members questioned whether the BTS represented maximum harmonisation.

47.The response was that it would represent a maximum harmonisation on supervisory information from banks relating to CRD. However, ad hoc requests could be made and additional statistical requirements from other (e.g. Central Banks) could be made.

48.Two Members raised the risk that banks may resist further data requests as a result, the Chairperson noted that the legislation states that in the CRD there must be binding technical standards. But at the same time there would be more flexibility under Pillar 2. The Standing Committee on Accounting, Reporting and Auditing were given the mandate to work on the BTS under the principles in the note, but also consider the concerns above during the development of the package. Members also sought clarity on whether this data would be sent automatically to EBA or not.

Agenda item 10 Liquidity risk reporting

49.Members agreed that there should be a written procedure regarding the liquidity risk reporting.

Agenda item 10 High Level Groups on data exchange and Systemic Risk

50. Members noted the update on the HLGs.

Agenda item 11 3rd country equivalence

51. The 3rd country equivalence note would be circulated for Members approval under written procedure.

Agenda item 12 Progress reports from Expert Groups

52. Members noted the progress reports.

Agenda item AOB

53. During the meeting the EU Commission intervened to discuss the level of representation. The Chairperson noted that it was imperative this issue was resolved shortly. The Commission reminded its position has been made explicit in several mails and letters already. The Regulation is clear and must be enforced: Members must be the heads of national authorities (and Heads must meet in person twice a year, possibly with agenda points requiring their presence), otherwise the whole ESAs set-up will run a serious legal risk. COM indicated that the Commissioner is prepared to intervene on this at ministerial level in ECOFIN

54. A note on emergency situations was noted which sets important principles for what the ESAs would do in emergency situations. Members' written comments would be welcome by end March.

Written procedure of EBA decision 031/2011 on Key Risk Indicators

55. Members voted on the draft decision on Key Risk Indicators (EBA DC 031) between 15 February and 22 February 2011. The decision was approved and the final version was sent to members 3 March 2011.

Andrea Enria
Chairperson



Participants at the second meeting of the Board of Supervisors

London, 2 March 2011

Chairperson	Andrea Enria
Alternate Chairperson	Thomas Huertas
Acting Secretary General	Arnoud Vossen
Interim Executive Director	Olivier Salles

<u>Country</u>	<u>Voting members or alternate</u>	<u>Representative NCB</u>	<u>Accompanying Person</u>
Austria	Helmut Ettl	Andreas Ittner	Ingeborg Stulbacher
Belgium	Rudi Bonte	Peter Praet	Jo Swyngedouw
Bulgaria	Rumen Simeonov		
Cyprus	Costas Poullis		
Czech Republic	David Rozumek		Ivan Zahradka
Denmark	Ulrik Nodgaard		Ms Birgit Soegaard Holm
Estonia	Andres Kugpold	Timo Kosenko	

Finland	Jukka Vesala	Kimmo Virolainen	Anneli Tuominen
France	Daniele Nouy		Didier Elbaum
Germany	Sabine Lautenschlager	Erich Loeper	Markus Lixfield
Greece	Vassiliki Zakka		
Hungary	Karoly Szasz	Marton Nagy	Laszlo Seregdi
Ireland	Jonathan McMahon		Mary Burke
Italy	Giovanni Carosio		
Latvia	Janis Placis	Vita Pilsuma	
Lithuania	Filomena Jaseviciene		
Luxembourg	Claude Simon	Norbert Goffinet	
Malta	Andre Camilleri	Anthony Cortis	Karol Gabaretta
Netherlands	Henk Brouwer		Anthony Kruizinga
Poland	Damein Jaworski	Olga Szczepanska-Maciejuk	Anna Maciejewska
Portugal	Pedro Duarte Neves		Adelaide Cavaleiro
Romania	Adrian Cosmescu		

Slovakia	Vladimir Dvoracek	Tatiana Dubinova	
Slovenia	Matej Krumberger		
Spain	Francisco Javier Ariztegui		Fernando Vargas, Cristina Iglesias
Sweden	Martin Ardesson	Olof Sandstedt	Uldis Cerps
UK	Thomas Huertas	Alan Ball	Cassandra Kenny

Country

Observers

Iceland	Ragnar Hafioason
Liechtenstein	Rolf Bruggeman
Norway	Bjorn Skogstad Aamo

Institutions

Representatives

European Commission	Jonathan Faull	
European Central Bank	Mauro Grande	
ESRB	James Talbot	Guillaume Leclercq

EIOPA

Patrick Hoedjes

ESMA

Carlo Comporti