

Minutes of the EBA BoS meeting 27-28 February 2013

27- February 2013/13:30-19:00

28- February 2013/8:30-16:00

Location: EBA, London

1. The Chairperson chaired the meeting.

Agenda item 1: "Opening, welcome & approval of the Agenda and Minutes and Court of Auditors' attendance"

2. The agenda and the draft minutes of the 5-6 December 2012 BoS meeting were approved.
3. The Chairperson welcomed Mr Fabrizio Saccomanni as new BoS member for Italy.
4. He also informed of: -the attendance of a representative from the Court of Auditors, at this BoS Meeting, except for the restricted session of 28th February 2013, and of the recognition of "Informa D&B Portugal Sociedade Unipessoal, Lda" as an External Credit Assessment Institution in Portugal by the Banco de Portugal.

Agenda item 2: "Risks and Vulnerabilities"

5. The Director of Oversight introduced this item by identifying four key areas of risks and vulnerabilities: funding fragilities, fragmentation of the Single Market, confidence in banks, asset quality and valuation concerns and credit risks. He also recalled the concerns on asset quality brought to the attention of the BoS at previous meetings and made a reference to the EBA stock-take on national asset quality reviews.
 6. The opinion of the BoS was requested on whether other risks or policy responses need to be considered for the mid 2013 report as well as what actions are needed on asset quality.
 7. The Chairperson of SCOP informed the BoS of the main issues raised in the SCOP discussion on risks and vulnerabilities; consistently with the assessment of the Staff, he pointed out the need to focus on asset quality and address uncertainty regarding the valuation of banks' assets.
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Conclusion

8. The BoS agreed with the risk assessment presented by the EBA staff and SCOP with minor comments and urged the EBA staff to proceed on this basis for the next risk report.
9. Regarding asset quality, the BoS agreed with the risks identified and that policy action in this area could be useful, under a broad umbrella provided by the EBA.

Agenda item 3: “EBA Recommendation on the Preservation of Core Tier 1 Capital in the Transition to the CRD IV/CRR Framework”.

10. As agreed at the last BoS meeting, the EBA December 2011 Recommendation is to be replaced by a new Recommendation on the preservation of core Tier 1 capital in the transition to the full implementation CRD IV/CRR framework. A draft of this new Recommendation was discussed at the December 2012 meeting and a new version of the text was circulated for comments.
11. A brief introduction was made by the EBA staff on how comments raised by written procedure and during the technical workshop were addressed in the current version of the Recommendation and templates. BoS members were invited to discuss the new Recommendation and agree on the remaining open issues and, namely, the link with between the recommendation and the stress test; the exemptions; the contents of the monitoring templates and the possibility to leverage on the ISG data collection; the eligibility of the EBA CoCos; the reference date for computing the nominal amount of capital; the need to maintain the sovereign buffer.
12. The link between the capital plans and stress tests was discussed during the meeting. While the amendment to the initial text and thus the current wording (Competent Authorities should consider the impact of stress events on the viability of the plans) was supported by many members, others showed their preference for a stricter link between both exercises. Some members also commented on the text of the stress test methodology, which talks about static balance sheet and dynamic capital plans.

Conclusion

13. The current draft version of the Recommendation was supported. The Chair, based on the comments raised by the BoS members, concluded that:

-Link with stress test: It was decided that the wording of the recommendation will be left as it is.

-Exemptions: While it is legitimate to recognise exceptions, when appropriate, there should not be any general guidelines on this. Possible exceptions will be analysed ad hoc, on a case by case basis, and discussed in depth within colleges of supervisors. The text of the recommendation should be amended accordingly. Besides, the reference “and the EBA” in

paragraph 4 of the Executive Summary and recital (4) (whereas) of the recommendation will be replaced with “in consultation with the EBA”.

-Monitoring templates should be kept as simple as possible. The EBA will try to streamline the templates, and in particular, the nominal capital buffer template, taking the ISG template as a reference. In order to be able to re-use already reported data the EBA staff shall require the ISG members to disclose the name of the bank in the sample and to link data with bank names.

-The template on Transition to the CRDIV/CRR should also take into account possible CET1 add-ons for SIFIs.

-In order to emphasize furthermore the relevance of the role of colleges in the monitoring of the recommendation, references to colleges under paragraphs 4.c) and 4.f) of the body of the recommendation will be brought up, and reflected between paragraphs 1 and 2 also in the body of the recommendation.

-Only CoCos issued before June 2012 can be part of the nominal buffer, in line with the EBA BCCS common term-sheet.

-It was discussed whether to stick to the current reference date, June 2012, or to take into consideration a more recent reference date (December 2012). Most members preferred the first option while others expressed their support to the second one. Therefore, it was confirmed to stick to June 2012 as previously agreed by the BoS and communicated publicly in the EBA October 2012 final report on the recap exercise.

-It was also clarified that the purpose of the templates is the monitoring of the recommendation, and not public disclosure.

-Finally, regarding the status of the CRDIV/CRR, it was agreed that the date of entry into force of the new recommendation will be brought forward to the date on which the final text of the CRDIV/CRR is published.

-In relation to the continued need for the sovereign buffer, it was agreed that the EBA will address a formal letter to the ESRB reflecting the BoS thoughts and views on this issue, in order to trigger an ESRB discussion on the sovereign buffer and to request their written opinion.

Agenda item 4: “Stress Test-Methodology Paper”

14. The Chairperson introduced this topic and briefly explained the main points for discussion. It was noted that the BoS was not asked to endorse the methodology at this stage, but only to agree on the process for discussing methodological risk chapters with the industry.

15. The Director of Oversight explained the planned next steps that would take place in parallel with the informal consultation and would include the work on benchmarks, how to relate static balance sheet stress tests to dynamic capital plans, the identification of reference variables to be monitored and related criteria for triggering supervisory measures following the stress test. The BoS members were invited to assign national experts to join the drafting of these notes, which would be discussed at the May BoS meeting.

16. The BoS was invited to express its view on the issues outlined above. The main outcomes of the discussion were as follows:

a) Informal discussion of methodological risk chapters with industry starting mid March 2013:

The BoS expressed its support to start the informal discussion with the industry in Mid March. Some methodology related changes to the risk chapters were requested but there was agreement on the majority of issues raised in the paper.

b) Open methodological issues (treatment on old defaulted assets and securitisations):

While a number of BoS members suggested to use the methods the STTF expressed preference for and have only these approaches discussed with the industry, most BoS members supported keeping both options in each of the risk chapters and have them discussed with firms.

c) Open issue on data collection:

The BoS expressed clear preference to conduct an advance data collection without asking banks for their opinion.

d) Sample size:

Regarding the size of a stress test sample, BoS members expressed no clear preference but suggested different sample sizes, e.g. a reduction in size to larger banks only (e.g. those in the close monitoring college list) or keeping the sample size as in the previous exercise. This issue, together with the coordination with exercises under way in programme countries, should be further discussed.

Conclusion

17. EBA staff will continue to prepare the formal discussion with the industry starting mid March 2013. Regarding the open methodological issues, the risk chapters will include both options for the treatment of defaulted assets and securitisation exposures. After endorsement of the finalised risk chapters by the BoS in written procedure, an informal discussion with the industry will be conducted. The proposals in the cover note on the practical arrangements for such interaction, including the testing phase of the templates, have been endorsed.

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18. The BoS agreed that the EBA staff will conduct a data collection starting in May 2013.
 19. It was suggested to slightly reduce the sample, for instance, to “European college banks” to allow an analytical exercise. The EBA staff will provide a list of these banks to be circulated by next week. The Chairperson highlighted the need to coordinate with the ECB on this topic.

Agenda item 5: “Single Supervisory Handbook”

20. The revised proposal for launching the Single Supervisory Handbook project was presented to the BoS. This revised proposal took into account the feedback from the Management Board discussion at its February 2013 meeting and addressed questions raised by the BoS in December 2012.
21. The opinion of the BoS was requested on the following issues: legal status of the Handbook, broad content/outline of the Handbook, interaction between the Handbook and Guidelines for common SREP, modalities and governance of the project, launching a pilot exercise to test the overall setting.
22. It was stressed that the Single Supervisory Handbook of the EBA should be well coordinated in terms of content and timing with the Supervisory Manual of the SSM. It was noted that the SSM Manual will cover also supervisory methodology not only supervisory processes. On the methodology, close coordination between the two products will be warranted.
23. The Chairman clarified that the project will not have the ambition to directly cover all the issues contained in the tentative table of content, but will focus on some key chapters where convergent supervisory methodologies and approaches are particularly needed. The Chairman accepted the point raised by a number of BoS members that the Single Supervisory Handbook should not be legally binding and should focus on supervisory best practice.

Conclusion

24. The BoS agreed that the Single Supervisory Handbook was not legally binding. The BoS agreed to start the project tentatively along the lines presented by the Staff. The BoS agreed to set up a senior level Steering Committee to act as an editorial board and oversee the project. The BoS members were invited to volunteer to join the work of the Steering Committee. Hence, a call for volunteers will be launched next week to participate in this Committee.
25. The BoS also agreed to launch a pilot exercise as proposed by the EBA Staff and to set up a Steering Committee, calling for candidates amongst BoS members. The BoS also asked the Steering Committee to further consider the topic for the pilot. To this end the Steering Committee will hold its first conference call in the week commencing with 18 March and report back to the BoS before initiating the work.

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26. In line with the request of several members, it was agreed that appropriate coordination between the work of the Steering Committee and the ongoing work of Standing Committees, in particular SCOP, will be ensured.

Agenda item 6: “Definition and Reporting of Encumbrance”

27. The endorsement from the BoS members was requested on the draft Consultation Paper (CP) and the publication of the CP for a two months’ consultation period.

Conclusion

28. It was agreed that the consultation paper on asset encumbrance will be sent into consultation for a 3 month period, although with revision on a number of minor technical aspects. The BoS members agreed to provide input after the meeting on these aspects.
29. The BoS members reflected on the proportionality principles in the paper, specifically on the 5% threshold of encumbered assets, which was generally assessed as being on the low end. Furthermore, it was proposed to include a minimum threshold, e.g. 1 bn euro in total assets, below which the bank should not report. The calibration of the thresholds will take place during the consultation period, meanwhile, a questionnaire will be sent to the national authorities to work in parallel. As a result, inputs from the consultation as well as from the questionnaire will be used to finalise the draft consultation paper.

Agenda item 7: “Definition of Forbearance and NPL”

30. The Director of Oversight stated that, as agreed at the last BoS meeting, the EBA and experts from national supervisory authorities have worked with SCARA to produce common definitions on forbearance and non-performing loans.
31. The steering of the BoS was requested on some issues where no common views could be found at SCARA, in particular:
- as regards the *definitions of non-performing exposures*: a) should the trading book exposures be included in the definition and b) the scope of harmonisation; in this regard, two options were presented to the BoS.
 - as regards the *templates*: a) Reporting on a country-by-country basis and b) inclusion of data on collateral.

Conclusion

32. The BoS welcomed the document submitted to the BoS. Following some of the BoS members’ requests, the Chairperson suggested SCARA tidying up the document and incorporating the two specific comments raised by the BoS on the consistency between the wording of the cover note and the draft consultation paper. In relation to the scope of harmonisation, the

majority of the BoS members supported the option: for a harmonised definition for non-performing loans.

33. Most BoS members were in favour of a breakdown by country, albeit in the form of aggregate data on a country by country basis subject to suitable proportionality criteria.
34. Most BoS members supported having information on collateral reported in the NPL template with data to be reported following existing methodology used in FINREP. A question on the appropriate valuation methodology will nevertheless be included in the Consultation Paper.
35. As different views were expressed with reference to the trading book exposures, the issue will be kept open and addressed during the consultation through some questions.
36. It was confirmed the templates and definition will follow the scope of other FINREP templates.
37. Following the review of the revised paper by SCARA, the consultation paper will be published for consultation- together with the paper on asset encumbrance - with a 3 months comment period.

Agenda item 8: “Restricted (Voting Members Only)”

38. Restricted item.

Agenda item 9: “Reports from the Impact Study Group on their work in relation to the Capital Monitoring Exercise”.

38. The Chairperson thanked the Bundesbank for maintaining and processing the data related to the joint EBA/ESCB’s Impact Study Group work.
39. The Co-Chairman of the ISG presented two options for the part of the draft report dealing with the liquidity coverage ratio (LCR), i.e. (i) the publication of high-level figures that show the impact of the Basel Committee’s re-calibration of the LCR metric and (ii) no publication of the relevant impact due to the difficulties in producing accurate results.
40. The BoS was requested to express its opinion on (i) the draft public report on Basel III monitoring, (ii) the draft internal report on Basel III monitoring and (iii) the draft report on CRD capital requirements.
41. The Chairperson noted that the draft report should place greater emphasis on the role played by the EBA’s Recapitalisation exercise in driving the common equity tier 1 (CET1) ratio of the ISG sample significantly upwards.

Conclusion

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42. The BoS approved the draft internal report on Basel III monitoring and the draft report on CRD capital requirements.
 43. Several concerns were raised as to the publication of the LCR section in the Public ISG Report on Basel III monitoring. However, the BoS decided not to publish the Report until a final decision is adopted by the Basel Committee in this regard. The EBA decided to align with the decision of the Basel Committee as to whether the Public ISG Report would contain the LCR results.

Agenda item 10: “Internal Working Method”

44. The Director of Regulations introduced the paper on Internal processes and work practices emphasizing the number of deliverables within the regulatory area. The Co-Chairs of SCRePoL briefly presented the rationale and operational features for the setting up of project teams, mainly needed for analytical works. Some suggestions were made for some pilot proposals at SCRePoL.
45. The BoS members were asked to discuss the ideas proposed in the general and SCRePoL paper and to provide comments on the proposed approach, including the specific work streams falling under the delegated responsibility of the Management Board/other high level steering committees, or falling under the direct responsibility of the EBA staff.

Conclusion

46. The BoS expressed its views and supported both papers. Members agreed with the need for some flexibility to face the variety and magnitude of the tasks, and expressed: - a strong preference to involve technical experts and Standing Committees in the process while relying in some limited cases on the Management Board or Steering Committees composed of BoS members; - to delegate it the Standing Committees and their chairs to organise the work stream, including within dedicated project teams when needed; - support for temporary additional resources to be allocated from NSAs; - request that on difficult issues an early involvement of the BoS is envisaged; -the need for clear guidance and mandate to the dedicated project teams or Steering Committees working groups and timeframe for the deliverables to be achieved.
47. With reference to the voting written procedures, the EBA Staff will prepare a template for the results of the votes, reflecting the comments suggested by the BoS members. Following a request from some BoS members, the comments of BoS members in written procedures will be made available on the members’ only website as soon as they are received by the EBA.

Agenda item 11: “Paper on Bail-in and Interplay with Supervisory Write-Down”

48. The EBA Staff presented a non-paper drafted with the aim to further develop a policy stance on bail-in set out in the previous EBA opinions, and to check whether it was possible and desirable to form an EBA common supervisory position to be communicated to the EU

Commission and co-legislators in relation to the draft Bank Recovery and Resolution (RRD) Directive.

Conclusion

49. The BoS members expressed scepticism at the EBA forming a view on bail in given the limited expertise on resolution matters amongst Members. The BoS members agreed to submit by written procedure their views with respect to the questions raised in the non-paper. The possibility to issue a final document on bail-in will be re-assessed in light of the developments stemming from further investigation of the comments.

Agenda item 12: “Issues paper on the review of the EBA Regulation”

50. The Chairperson noted that the paper on the review of the EBA Regulation raises some issues in respect to the existing EBA Regulation in the light of the Review Clause under the EBA Regulation and also in light of the SSM developments. He also added that following BoS Members comments received after the last BoS Meeting a discussion on governance arrangements would not to be carried out at this juncture.
51. The BoS was asked to assess these issues and discuss a possible EBA Opinion to be submitted to the EU Commission, in relation to its review of the EBA.

Conclusion

52. The BoS members expressed their views on the different proposals, which they categorised as misalignment of powers under EBA Regulations and stakeholders’ expectations; supervisory tasks of EBA in light of SSM; Rule making and Internal matters.
53. Several concerns were raised in the area of supervisory matters, and it was suggested to revisit the paper in light of the final text for the ECB and EBA Regulations, under the SSM package. The comments suggested by the BoS members will be taken into consideration and a revised paper will be submitted at the next BoS meeting.

Agenda item 13: “Consumer protection-“Consumer Trends 2012 Report”

54. This agenda item was dropped. A new/corrected version of the Consumer Trends 2012 Report will be re-submitted to the BoS via written procedure in the following week for approval.

Agenda item 14: “SCOP Draft Paper on Supervisory Structures”

55. The paper on Supervisory structures was introduced by the Chair of SCOP. This report presents an overview of national supervisory practices in the EEA Member States, providing a broad picture whilst looking specifically at banking systems and supervisory challenges,

supervisory systems, supervisory structures and practices and responses to the financial crisis.

56. The Chair of SCOP clarified that this report was submitted for information only and for the BoS to consider possible areas of future work.

Conclusion

57. The BoS welcomed the paper and took note.

Agenda item 15: “Draft Preliminary Budget 2014”

58. Following the approval by the EBA Management Board on 7th February 2013, this Draft Preliminary budget 2014 was submitted to the BoS to allow proper discussion on budgetary and headcount requirements of the EBA for 2014.

59. An oral update was provided by the Executive Director on the EBA premises. The BoS took note.

Conclusion

60. The BoS approved the Draft Preliminary Budget for 2014.

Agenda item 16: “TCOR Work Plan”

61. Upon request of several BoS members, the TCOR Work Plan was resubmitted to the BoS to discuss some concerns raised by the BoS members, most of them related to the assessment of the resource implications.

62. The BoS was invited to comment on the Work Plan, and in particular, on the resource implications as regards the SME and Residential mortgages and on the Trading Book.

Conclusion

63. The BoS expressed its views on the Working Plan and agreed to endorse it. TCOR will: a) handle exceptions on a case by case basis where banks are unable to respect deadlines for SME and ResMortgages exercise; b) clarify in the protocol of interviews note the rules of engagement for Home/Host supervisors and TCOR members; c) share its work on Pillar 3 disclosure with Transparency subgroup and finalise a proposal/recommendation for next BoS; d) extend the SIGTB exercise to other IMM EU banks; e) extend the SIGTB exercise to other IMM EU banks.

Agenda item 17: “Joint Letter to Commission on Benchmarks”

64. The Chairperson noted that following the December 2012 Board of Supervisors meeting, a joint letter was drafted by ESMA, EBA and EIOPA to be sent to Commissioner Barnier, on the possible framework for the regulation of the production and use of indices serving as benchmarks in financial and other contracts. He added that this letter would contribute to the Commission forthcoming proposal. ESMA and EIOPA Boards had approved the letter via written procedure.

65. The approval of the BoS was requested as regard the above mentioned joint letter on Benchmarks. The discussion raised some concerns with the draft letter, but a clear majority support emerged.

Conclusion

66. The Joint Letter to the EU Commission on Benchmarks was approved by the BoS members by a simple majority vote.

Agenda item 18: “Reports from Committees”

67. The BoS took note.

Agenda item 19: A.o.B

68. Due to time constraints, a written procedure will be launched regarding the following draft Regulatory Technical Standards:

- (i) Consultation paper on the content of Recovery Plans under the draft directive establishing a framework for the recovery and resolution of credit institutions and investment firms and
- (ii) Consultation paper on the conditions for assessing the materiality of extensions and changes of internal approaches when calculating own funds requirements for credit, market and operation risk under articles 138(5), 301(3)(a) and 352(3)(a) of the CRR (EBA BS 2013 048),

Conclusion

69. A written procedure will be launched to finalise the Consultation papers on the above mentioned Regulatory Technical Standards.



**Participants at the Board of Supervisors meeting
27-28 February 2013**

Chairperson	Andrea Enria	
Country	Voting members or Alternate	Representative NCB
Austria	Helmut Ettl	Andreas Ittner/Ingeborg Stuhlbacher
Belgium	Rudi Bonte	Jo Swyngedouw
Bulgaria	Rumen Simeonov	
Cyprus	Argyro Procopiou	
Czech Republic	David Rozumek	Zdenka Faulhamerova
Denmark	Ulrik Nodgaard	Birgitte Sogaard Holm
Estonia	Andres Kurgpold	Timo Kosenko
Finland	Jukka Vesala/Anneli Tuominen	Kimmo Virolainen
France	Daniele Nouy/Frederic Visnovsky	
Germany	Raimund Roseler	Erich Loeper/Markus Lixfeld
Greece	Kyriaki Flesiopoulou	

Hungary	KárolySzász/Laszlo SeregdiAnikoSzombati		
Ireland	Matthew Elderfield/Mary Burke		
ItalyFabrizio Saccomanni	Andrea Pilati		
Latvia	Kristaps Zakulis/Vita Pilsuma		
Lithuania	AldonaJociene		
Luxembourg	Claude Simon	NorbertGoffinet	
Malta	Karol Gabaretta		Alexander Borg
Netherlands	Anthony Kruizinga	Ana Stoian	
Poland	Andrzej Reich/Maciej Brzozowski		
Portugal	Pedro Duarte Neves	Jose Coelho	
Romania	Nicola Cinteza		
Slovakia	Vladimir Dvoracek/Tatiana Dubinova		
Slovenia	Matej Krumberger		
Spain	Fernando Vargas Bahamonde/Cristina Iglesias-Sarria		
Sweden	Uldis Cerps/Olof Sandstedt		
UK	Andrew Bailey		Fiona Mann/Russel Jackson
<u>Country</u>	<u>Observers</u>		
Norway			Per Jostein Brekke/Ylva Ingeborg Sovik

Iceland Luovik Porgeirsson Indridi Freyr Indridason

Lichtenstein Rolf Bruggeman

Croatia Damir Odak

Institutions

Representatives

European Commission Dominique Thienpont

European Central Bank Angeloni Ignazio Panagiotis Strouzas

ESRB Francesco Mazzaferro Andrea Maechler

EIOPA Carlos Montalvo

ESMA Verena Ross

European Court of Auditors Kate Henderson

Others

Executive Director Adam Farkas

Director Regulation Isabelle Vaillant

Director of Oversight Piers Haben

Director Operations Peter Mihalik

EBA Staff Corinne Kaufman, Mario Quagliariello, Joseph Mifsud, Stefano Cappiello, Meri Rimmanen, Remi Boutant, Patricia Juanes Burgos