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EBA Staff

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16-17 June 2015

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Location: London

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# EBA Board of Supervisors – Final Minutes

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## Agenda item 1.: Guidelines for Open Selection Procedures for EBA Chairperson and Executive Director

1. The Alternate Chairperson presented the draft guidelines, which had been previously discussed and agreed by the Management Board at its meeting of 02 June 2015. He explained that the main changes concerned the composition and size of the Selection Committee, which would be composed of a majority of current BoS members.

### Conclusion

2. EBA staff would continue working on the draft in particular on independence of members of the Selection Committee. Once finalised, the note would be sent to the BoS for approval by written procedure.

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

3. The Chairperson opened the meeting. He informed the BoS that the EBA would organise a conference on Friday 5 February 2016 in London to commemorate the fifth anniversary of its establishment. The conference would be preceded by a regular BoS meeting.
4. The provisional agenda was approved. The minutes of the BoS meeting of 28-29 April 2015 were approved.

## Agenda item 3.: Update on Risks and Vulnerabilities

5. The EBA Director of Oversight presented an update on risk and vulnerabilities of the EU banking sector based on key risk indicators (KRIs) and extended supervisory reporting data as of Q4 2014. Amongst other, he brought to BoS's attention the latest developments on capital ratios and profitability as well as on funding markets; he explained to BoS the main findings resulting from the analysis of data on non-performing loans, forbearance ratios and asset encumbrance based on new supervisory reporting.
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6. The SCOP Chair presented a letter with main focus on banks' profitability which, although improving, had not yet reached a sustainable level; developments on bank internal models for the calculation of risk weighted assets; the situation of the real-estate market, which remained fragmented across the EU; capital markets union; and market volatilities connected with developments in Greece.
7. The member from Bank of Greece informed, inter alia, that there were liquidity problems in banks although their subsidiaries in foreign countries appeared fairly liquid and well capitalised. The SSM and ECB representatives also commented on the latest developments in Greece, where banks' capital and liquidity positions were being monitored and appeared fairly resilient although with high levels of NPLs. On the use of resolution tools should the case arise, the situation of Greece was particularly uncertain due to the lack of implementation of the Bank Recovery and Resolution Directive (BRRD); it was reminded however that resolution tools were provided for in the national framework and thus available to Greek authorities and that some BRRD provisions (e.g., on home-host cooperation) should be applied also in the absence of timely national implementation. The Chairperson summarised the EBA's efforts in promoting coordinated actions across the authorities involved and recommended that all concerned parties should strive to share information to facilitate a better interaction of home and host authorities and highlighted the importance of information to the public. He noted that the EBA stood ready to provide support.
8. The ESRB representative informed that it had started to work on the macro prudential impacts of low interest rates, and invited competent authorities (CAs) to join.

#### Agenda item 4.: Election of the co-Chair of SCRePol

9. The Chairperson invited candidacies from members and alternates to co-chair the Standing Committee on Regulation and Policy (SCRePol), for which a new call for candidates would be soon circulated to the BoS. The co-Chair would be elected at the BoS meeting of 08 September 2015.

#### Agenda item 5.: Peer Review on the Assessment of Suitability and Decision on the Next Peer Review

10. The Executive Director presented the conclusions of the third report of the EBA's Review Panel on the EBA Guidelines on the assessment of the suitability of members of the management body and key function holders (EBA/GL/2012/06). He invited the BoS to comment on the report and, in particular, on the proposals and their respective priorities.
11. The BoS broadly agreed with the Report and the proposals. But it also raised comments with regard to some of them, acknowledging that there were broad divergences in supervisory practices among countries and that peer reviews were a useful tool to foster convergence in areas of minimum harmonisation. Those comments concerned, inter alia, to the use of interviews as a minimum requirement, where the BoS had split views on their level of priority

and the rationale of their use; the Executive Director clarified that the proposal did not imply that interviews should be used in all cases, nor the sole tool for assessing individuals. The BoS also commented on the level of detail of the proposals, which should not constrain supervisory judgement; and on the proposal for a common and consistent approach regarding the suitability of the key function holders (KFH) across Member States. Members advocated for the use of the principle of proportionality to deal with the lack of convergence of practices, and considered that the involvement of the other ESAs should be desirable in the case of cross-sectoral issues.

12. On the possibility of issuing an EBA Opinion to seek legislative changes to the CRDIV, some members viewed it only as a means to address matters for which legislative changes to the CRDIV, instead of Guidelines, could prove a more suitable means.
13. The BoS also discussed on topics for future peer-reviews, for which the EBA staff provided some suggestions: ITS on supervisory reporting, Guidelines on disclosure of encumbered and unencumbered assets (EBA/GL/2014/03), and list of EU regional government and local authorities treated as exposures to central governments, as published in July 2014 in accordance with Article 115 of the CRR.
14. Members expressed their preferences and suggested other topics, such as cyber-risk. There was also a request for a systematic approach in the identification of which Guidelines and Technical Standards (TS) should be subject to peer-review to facilitate the choice of topic. The Executive Director confirmed that such an approach was already in place, but that it would be shared with the Bos in the future.

## Conclusion

15. The BoS approved the Review Panel's report and its publication; it expressed a preference for the ITS on supervisory reporting as a future peer-review.

## Agenda item 6.: Draft Final Report on the Benchmarking Exercise

16. The Chair of the Task force on Supervisory Benchmarking (TFSB) presented the main findings of the first exercise under Article 78 of the CRDIV of credit risk benchmarking for Low Default Portfolio (LDP) and of the market risk benchmarking on EU banks internal approaches for Counterparty Credit Risk (CCR) and Credit Valuation Adjustment (CVA) Risk (the CRR having leveraged on the data collected by the Basel Committee on Banking Supervision (BCBS) at global level). The BoS was asked to comment on the reports and approve their publication. He also informed that the banks involved in the exercise would receive detailed feedback on EU benchmarks, and presented the way forward for the benchmarking exercise in 2016, in particular, the reporting requirements to the EBA and the sample of banks for the computation of the EU benchmarks.

17. The BoS supported both reports although asked for a last round of written comments before publication, and asked for coordination with the Basel Committee for Banking Supervision (BCBS) before publication of the report on market risk benchmarking.
18. On the 2016 benchmarking exercise, and while noting the legal constraints of Article 78 CRDIV, members supported the proposal to limit the reporting to the EBA to the highest level of consolidation although there were some members who requested including data from EU banks at the solo level. The Commission representative confirmed the reading of Article 78 CRDIV, which would include all individual banks using internal models, with the only exception of models for calculating own funds requirements for operational risk, and suggested that flexibility could be envisaged only in cases where subsidiaries were using the same internal model as their parent.
19. There was agreement among the BoS on the proposal that the templates being prepared by the EBA to provide feedback on the outcome of the LDP exercise to participating banks should include the banks' own figures on risk parameters and risk weighted assets as well as the comparison with EU benchmarks, i.e. the main descriptive statistics (Q1, simple average and Q3) and additional analyses. Some members expressed their concern with the sharing of Q1 data, although the EBA staff explained that benchmarks for these parameters were being already published based on stress test data.
20. On the reports' policy implications, it was clarified that their purpose was to provide supervisors and banks with further information to enhance their ability to come up with more comparable estimates.

## Conclusion

21. Both reports would be submitted to the BoS for a last round of comments before their publication (in the case of the CCR benchmarking, also checking with the BCBS) together with a draft letter addressed to the Director General of the European Commission's DG FISMA informing him of the scope of the benchmarking exercise in 2016. The feedback to banks would include the entire distribution of risk parameters and risk weights (i.e., Q1, average and Q3).

## Agenda item 7.: Draft Final ITS on the Mapping of ECAIs' Credit Assessments

22. The Chairperson presented a draft ITS, prepared jointly by the ESAs, specifying the qualitative and quantitative factors as well as benchmarks for the definition of the mappings of External Credit Assessment Institutions' (ECAIs) credit assessments that institutions should use for determining the own fund requirements under the Standardised Approach to credit risk. The EBA staff explained the main issues, inter alia the treatment of newly established ECAIs for which there was not sufficient quantitative evidence.

23. The BoS acknowledged the compromise found in the text of the proposal, which presented a good balance between prudential approach and the objective of fostering competition in the credit rating agencies (CRAs) market, as well as consistency with the mappings for securitisations, on which a consultation paper had been recently published in May 2015. But some members expressed their concern with the phase-in period for the prudential aspects and asked to include safeguards to guarantee their inclusion before the proposed date. The EBA staff confirmed that the performance of the mappings would be monitored closely to ascertain in a timely manner whether mapping needed to be changed. There were also some concerns on the upgrade of ratings of ECAIs which would not qualify for the large pool methodology or for the small pool methodology, and for which a reassessment of the mapping was requested.
24. The Commission representative reaffirmed the position already expressed by the Commission services on the need for a favourable treatment of newly established ECAIs to support enhanced competition.

### Conclusion

25. With the comments expressed by the BoS, the draft would be discussed again by the ESAs before its submission for BoS approval by written procedure.

## Agenda item 8.: Draft Consultation Paper on RTS on Conditions to Take into Account when Setting Risk Weights and LGD Values for Mortgage Lending

26. The EBA Director of Regulation presented a consultation paper and explained the main issues, namely the scope of the mandate and the inclusion of indicative benchmarks for the setting of higher Risk Weights (RWs) and higher minimum values of exposure weighted average Loss Given Default (LGD). Various options were presented on the level of the indicative benchmarks for loss expectations for the setting of higher RWs.
27. The BoS raised several concerns, inter alia, the need to have a more specific description of loss expectation and to take into account both unexpected and expected loss. Some members also mentioned that the indicative benchmarks should be only indicative and thus not constrain the judgement by authorities when setting RWs. A broader definition of financial stability was deemed necessary by some members.
28. Members expressed their views on the different options presented in the paper, praising the consistency and/or flexibility of some options over others. The different patterns of real estate markets across the EU were considered as an element that should call for a flexible approach in the use of benchmarks.

## Conclusion

29. Noting the mandate to submit final RTS to the Commission by end-2015, it was concluded that the draft consultation paper would be published in early July 2015 with a range of levels for the indicative benchmarks. The BoS would discuss at its meeting on 8-9 December 2015 on the procedural aspects to be taken into account by the EBA when issuing Opinions further to requests by CAs when setting higher RWs or LGD floors.

## Agenda item 9.: Draft Final Advice on Simple, Standard and Transparent Securitisations

30. The Chairperson presented the final technical advice in response to the Commission's call for advice on qualifying securitisations dated January 2014, and asked the BoS to approve it for further transmission to the Commission and publication. Moreover, the Chairperson sought the views of the BoS on whether the EBA should work on defining a framework for certain synthetic transactions.

31. The BoS agreed with the content of the report and its publication. On comments regarding the data used for the proposal to re-calibrate the BCBS 2014 Securitisation Framework for qualifying securitisation positions, the EBA staff confirmed that it had used EU data. A request was made to slightly amend the language on the EBA special considerations in relation to global developments, clarifying that the EBA recommendations "will have to be revisited" as a result of global developments. Finally, the BoS asked to amend slightly the language of the executive summary regarding the non-application of external ratings-based approach for qualifying securitisation positions.

32. On the question about the EBA conducting work to define a framework for certain synthetic transactions, the BoS was in favour of this possibility but without committing, at this stage, to any policy conclusion. The Commission representative confirmed that no decisions had yet been taken as to whether or not synthetic transactions would be covered by any specific framework, however expressed a favourable opinion for the EBA to do so.

## Conclusion

33. The BoS adopted the final advice with changes to the executive summary and to the EBA special considerations.

## Agenda item 10.: Issues Note on Exposures to Regional Governments or Local Authorities

34. The Chairperson presented a note on the EBA's list of regional governments' and local authorities' exposures to be treated as exposures to their central governments. He referred to the case of Carinthia, Austria, which had attracted some media interest recently. Noting the requirements under Article 115(2) of the CRR, and the different national approaches to them,

the Chairperson sought the views of the BoS on whether implicit arrangements between the central government and regional governments and local authorities would be deemed sufficient to meet those requirements, and whether the EBA should conduct a stocktaking exercise to ascertain the criteria for their application.

35. The BoS shared the situation in their countries, where in some cases an implicit arrangement with the central government was considered sufficient whereas in other countries an explicit arrangement proved necessary. Members expressed that specific constitutional arrangements had to be taken into account, also the administrative structure of the state and the sharing of competences at different levels, i.e. state, regional and local.
36. The BoS agreed to a stocktake exercise; the SSM representative considered that this exercise should take into account the BCBS' work on definition of sovereign exposures. The EIOPA representative noted that the approach under Solvency II was different to that under the CRR, and viewed that the EBA and EIOPA should aim for a common understanding to avoid inconsistencies in their lists.

## Conclusion

37. The EBA would start a stocktake of practices among the EU to map the application of the criteria under Article 115(12) of the CRR and, once completed, would present the conclusions to the BoS.

## Agenda item 11.: Draft Final Letter to the EFRAG Board on EBA Views on the Endorsement of IFRS 9 and Way Forward

38. The EBA staff presented a draft letter addressed to the European Financial Reporting Advisory Group's (EFRAG) Board with the EBA's views on the endorsement in the EU of International Financial Reporting Standards (IFRS) 9 on financial instruments. In connection with IFRS 9 implementation aspects, the EBA staff explained the work to carry out in terms of both the qualitative and quantitative analysis of its implementation (impact assessment) and the interactions with prudential requirements. The EBA staff also explained its views on how the EBA could contribute to the implementation of the BCBS Guidance on accounting for expected losses at the EU level, via the elaboration of own initiative Guidelines.
39. The BoS agreed with the draft letter to EFRAG although one member pointed to the lack of data ascertaining the overall impact on banks. The ESMA representative explained that a letter would be presented to its BoS supporting the improvements brought about by IFRS 9, and showed ESMA's disposition to work with the EBA on the areas of further work as presented. The EIOPA representative stressed that the question of financial conglomerates might be an area of concern. The Commission representative expressed his concerns that the impact assessment could not be done as an input to the EFRAG draft endorsement advice.

40. On the impact assessment of IFRS 9's implementation, the BoS expressed a favourable opinion although acknowledged that it could not be performed preliminarily to the endorsement of IFRS 9. The Chairperson reminded that there had always been a broad support from the supervisory community to push for expected losses model and that this should not be delayed further.
41. Equally, the BoS supported that SCARA, in coordination with SCRePol, should carry out an assessment of the areas of interaction of IFRS 9 with the prudential requirements that should be worked on.
42. Finally, with regard to the possibility of the EBA starting to work on draft guidelines to implement in the EU the BCBS guidance on accounting for expected credit losses, the BoS supported this option although raising questions in terms of legal basis and the link with accounting matters. In this latter point, the EBA staff explained that the BCBS guidelines were addressed to both banks and supervisors; furthermore, the EBA guidelines would impose requirements for prudential purposes and not in the financial statements.

## Conclusion

43. The draft letter was endorsed for sending to the EFRAG Board without changes. An impact assessment of IFRS 9's implementation would be carried out in 2016 once reliable figures were available from banks. The EBA would start the work on the drafting of guidelines to implement in the EU the BCBS guidance on accounting for expected losses.

## Agenda item 12.: NSFR Calibration Report - Final Methodology

44. The EBA Director of Regulation presented the draft report to submit to the Commission by end-2015 on the methodology for determining the amount of stable funding available to and required by institutions and on appropriate uniform definitions for calculating the net stable funding requirement (NSFR) as required by the CRR.
45. The BoS expressed a broad support with the methodology presented. Some members suggested simplifying the granularity of business models with possibly the inclusion of further differentiation based on the size of the institutions. The ECB representative indicated that they would not a priori see the merits of an assessment in terms of size. However, as they did not see the need for a differentiated treatment, it was argued that any proposal should be based on strong evidence. The Commission representative indicated that they would send shortly a call for advice with further areas of work to be considered by the EBA in comparison with the legal mandate contained in the CRR and urged for maintaining the size dimension in the report.



## Conclusion

46. The EBA would continue working on the report on the basis of the remarks by the BoS, in particular in terms of (relative) size, and would inform the BoS at its meeting of 27-28 October 2015.

## Agenda item 13.: Bundling of BRRD Technical Standards

47. The Commission representative presented the state-of-play of the request to the EBA to submit bundled BRRD-related technical standards (TS) to the Commission, noting in particular the entry into force of some of them as of January 2016. He explained that the Commission services would bundle themselves those TS already submitted by the EBA; these would be subsequently submitted to the EBA so that it could follow the same approach for TS going forward.

## Agenda item 14.: Draft Final Guidelines on Conditions for Group Financial Support, Draft Final RTS on Conditions for Group Financial Support and Draft Final ITS on Disclosure of Group Financial Support Agreements

48. The EBA staff presented the three drafts and explained to the BoS the main questions discussed during their drafting and negotiation, and recalled that the Guidelines, ITS and RTS were related to the recovery phase and thus addressed to CAs (not to resolution authorities).

## Conclusion

49. The draft guidelines, ITS and RTS were approved by consensus of the BoS.

## Agenda item 15.: Draft Final RTS on Valuation Methodology

## Agenda item 16.: Draft Final RTS on the Methodology to Carry Out an Ex-post Valuation

50. The EBA staff presented two draft final RTS on valuation and explained that drafting changes had been implemented, inter alia, to avoid the impression that valuers were required to advise on the valuation consequences of changes to resolution actions.

51. Some members raised concerns on Article 10(3) of the draft RTS on criteria relating to the methodology for assessing the value of assets and liabilities, and requested its amendment as to prevent the valuer from identifying resolution actions, while others considered it important not to overly restrict the valuation, especially in cases where the range of resolution actions was narrow. In this regard, the EBA staff suggested making a link to paragraph (2) or in the alternative, redrafting paragraph (3). The SRB representative requested that Article 1(3) of the draft RTS criteria relating to methodologies for valuation of difference in treatment in

resolution be slightly amended as to clarify that the information should be known by the valuer. There was also a request to consider incorporating the text from recital 5 on a competent authority's decision on whether a bank was failing or likely to fail, to which the EBA staff held that they would need to consider whether that was legally possible but would certainly make that point clear in the communication on the RTS.

52. The Commission representative confirmed that the Commission services had yet to clarify the question of “hold” and “exit” valuation for the assessment of a bank's assets.

### Conclusion

53. Once received the Commission's input, the draft RTS would be circulated to the BoS for approval by written procedure.

## Agenda item 17.: Draft Final RTS on MREL Criteria

54. The EBA staff presented the draft RTS on minimum requirement for own funds and eligible liabilities (MREL) and invited the BoS to express their views on the changes and drafting options which had been included therein following discussions at ResCo. The Chair of the Task Force on Impact Studies (TFIS) presented the initial analysis of the results of the QIS exercise on MREL, which broadly confirmed the assessment of the consultation paper's impact assessment based on public data.

55. Many members noted that the draft represented an acceptable compromise. Some members however felt that the draft did not provide sufficient certainty that MREL would be set consistently across the EU and at a sufficiently high level to ensure resolvability. Clarifications were agreed to Article 2(8), to note that maintenance of critical functions would require the restoration of market confidence, and to Article 5(2), to note that the resolution authority's assessment of risks should be focussed on risks to resolvability.

56. Several members noted that further work was needed, in the context of the EBA's report on MREL due in 2016, to address the question of whether MREL could reduce the usability of capital buffers. The ESRB representative noted they were in the process of finalising a letter to the Commission on this and other issues related to MREL, but had not identified a preferred solution.

### Conclusion

57. The BoS approved the draft RTS with the amendments to Articles 2(8) and 5(2).

## Agenda item 18.: Draft Final RTS on Contractual Recognition of Bail-in

58. The Chairperson presented the draft RTS under Article 55(3) of the BRRD, and explained the treatment of secured liabilities included in the text.

## Conclusion

59. The draft RTS were approved by consensus of the BoS.

## Agenda item 19.: Draft Final Guidelines on Criteria for Applying Simplified Obligations, and Draft Final ITS on Templates for Notifications on Simplified Obligations

60. The EBA staff presented the draft guidelines and ITS under Articles 4(5) and (11) of the BRRD on the assessment of eligibility of institutions for simplified obligations in relation to recovery planning, resolution planning and resolvability assessments.

61. Some members expressed their concern with the requirement to report LEI numbers. The EBA also noted that it could consider issuing own initiative guidance on the completion of the templates under the ITS.

## Conclusion

62. The draft guidelines and ITS were approved by consensus of the BoS.

## Agenda item 20.: Draft Final Guidelines on Product Oversight and Governance Arrangements

63. The Chairperson welcomed representatives from authorities competent for consumer protection who had joined the BoS meeting discussions on consumer protection and financial innovation (agenda items 20 to 24).

64. The EBA staff presented the draft final guidelines on product oversight and governance arrangements (POG) aimed at ensuring products should be designed and placed in the market without causing consumer detriment. On a question on whether the disclosure regime and exclusion of fees as set out in guideline 12.1 may be contrary to the Mortgage Credit Directive, the EBA staff confirmed that this would be looked into.

65. Some members requested a clarification on the use of CRDIV as one of the legal bases for the POG Guidelines. The EBA staff explained that bad product design and resulting mis-selling could lead, and in some Member States had actually led, to significant conduct costs for firms; this had undermined the viability of firms and confidence in markets, and thus the governance and internal control provisions in the CRDIV were considered a suitable basis for requirements regarding product oversight and governance, in conjunction with Articles 9 and 16 of the ESAs' founding Regulations. The Commission representative confirmed that unlike for technical standards, an explicit empowerment in sectoral legislation was not required for guidelines, but a legal basis for the EBA on the subject matter was however required; he pointed out that Article 16 of the ESAs founding Regulations was a relevant legal basis, where the EBA is fostering supervisory convergence and harmonising the application of Union law, although it

would need to be complemented with a link to the underlying sectoral legislation which the guidelines aimed to harmonise; this would appear to be easier to do in the presence of specific level 1 legislation but was ultimately a matter for the EBA to determine and he invited the EBA to assess whether there was a sufficient link in this specific case.

### Conclusion

66.The EBA would look into guideline 12.1 and, where necessary, amend it, following which the POG Guidelines would be submitted to the BoS for approval by written procedure.

## Agenda item 21.: Consumer Trends Report 2015

67.The EBA staff presented the consumer trends report 2015, which identified the trends observed during 2015 and provided early indications as to the areas where the EBA could take action going forward. These included: household indebtedness; transparency and comparability of banking fees; innovation in payments; alternative financial services providers; etc. The Chairperson mentioned in particular the case of liabilities issued by banks, which could be bailed-in since January 2016 in case of resolution under the BRRD, and suggested that consideration be given to recommending banks and supervisors to alert bank customers.

68.The BoS welcomed the consumer trends report. On a request by a member, the EBA staff explained the process for identification of trends given the absence of hard data, and confirmed that the EBA would work in the future to strengthen this process.

### Conclusion

69. The BoS adopted by consensus the consumer trends report 2015 and agreed to its publication.

## Agenda item 22.: Strategic Discussion on the EBA's Work on Consumer Protection and Financial Innovation

70.The Chair of the Standing Committee on Consumer Protection and Financial Innovation (SSConFin) led on a discussion on risks and challenges on consumer protection and how to address them, as well as on the actions that could be taken to deliver them. He presented four key areas around which future work could be structured: a) delivering on the mandates set out by sectoral legislation, b) strengthening the current regulatory framework, c) define future policy developments, and d) highlight consumer trends as a means to signal relevant areas for banking products. He invited the BoS to comment on this as well as to share ideas on how to frame the strategy for consumer protection and financial innovation.

71.The BoS welcomed the proposals by the Chair of SCConFin and shared other ideas on subjects and areas on which SCConFin could develop its future work. One of them was financial education, considered as an area worth working on as it could support regulation. The sharing

of practices among CAs was also highlighted by the BoS as a subject on which SCConFin could work, as it could foster convergence of supervisory practices more generally.

72. The BoS noted that it would be necessary to invest more time and efforts on investigating on financial innovation, e.g. the offering of services other than payments, oriented to retail clients by banks operating exclusively via internet; as well as the additional risks arising from financial innovation. The Chairperson noted that a balance between promoting competition and the provision of secure services to consumers was necessary in this area.

73. Other areas mentioned by the BoS were: a) the protection of consumers and the monitoring of financial innovation as areas in their own right rather than a means to achieving better prudential regulation; b) enhanced coordination among the ESAs; c) monitoring and identification of risks; and d) an enhanced use of warnings and recommendations addressed to CAs and banks.

74. The Commission representative noted that the use of warnings and recommendations could indeed have a powerful impact.

### **Conclusion**

75. The Chair of SCConFin concluded the discussion noting the interest of the BoS on this area, ranging from education to innovation and convergence, the latter at various levels: CAs, ESAs coordination and the relations between conduct and prudential approach to consumer protection and financial innovation.

## **Agenda item 23.: Discussion Note on JC Cross-selling Guidelines**

76. The EBA staff presented a discussion note on the concerns raised by CAs and stakeholders further to the consultation on the ESAs guidelines, which would regulate cross-selling practices in the financial sector with a view to enhancing customer protection.

### **Conclusion**

77. The BoS took note of the points raised in the discussion paper. The guidelines would be submitted to the BoS for approval post-summer 2015 by written procedure once finalised by the ESAs's Joint Committee.

## **Agenda item 24.: Discussion Note on JC PRIIPS Technical Discussion Paper**

78. The Chairperson presented a discussion note ahead of the preparation of a consultation paper on RTS on the content and format of the Key Information Document (KID). Two insurance-specific issues, related to the inclusion of biometric risk premiums in cost and performance information, and the treatment of multi-option products in the KID, were highlighted for discussion.

## Conclusion

79. The BoS took note of the discussion paper. The consultation paper should be ready in 2015.

## Agenda item 25.: Decision on the 2016 EU-wide Stress Test

80. The Chairperson presented a proposal with key aspects of the 2016 EU-wide stress test, following the conclusions of the BoS meeting of 28-29 April 2015. The proposal had been previously discussed by the MB at its meeting of 02 June 2015.

81. The BoS discussed about the various elements included in the proposal. Members expressed their preference that the stress test should be a supervisory exercise, to be run biannually, and whose outcomes would inform the supervisory review and evaluation processes (SREP) by CAs. In this regard, some noted that it would be advisable to organise such supervisory stress test exercises on an annual basis, although they also acknowledged the difficulty to do so. The BoS accepted the proposal that the EBA should draw up a manual to support quality assurance as a means to help improve consistency across the sample. Some members noted that this should be a high-level manual rather than a too detailed one.

82. On the methodology, the BoS held a discussion on whether the 2016 stress test should be based on either a static or a dynamic balance sheet assumption. The opinions were divided between both options, although the prevailing opinion was that the dynamic assumption should be certainly used in future exercises (2018 onwards) and the EBA should carry out preparatory work to so facilitate. The 2016 exercise would be based on a constrained static balance sheet assumption. On other elements of the methodology, there was agreement to maintain the risk coverage as presented in the note and to confirm the 2014 methodology although with some sharpening of credit risk methodology and securitisation and improvements in market risk and the NII part. The EBA would also work on aspects of conduct risk to so include in this stress test. Furthermore, the BoS agreed not to set a pass/fail threshold as in previous stress test exercises.

83. There was a discussion on the sample size of banks included in the stress test. Again, opinions were divergent, so it was decided that the EBA would develop criteria to scale down the sample whilst ensuring a wide geographical presence of banks. In this connection, there was a debate on whether or not including banks under restructuring. There were concerns that excluding them could e.g. send to the market wrong signals, also that their inclusion would be better accommodated under a dynamic balance sheet approach. Given the various considerations expressed by members, the EBA agreed to develop criteria to determine their inclusion/exclusion.

84. The BoS finally discussed on the timing of the launch of the stress test and publication of the final results. The MB had expressed a preference for launching the exercise in February publishing the results in late-July, and some members acknowledged that this option was advisable as it would help feed the results into the SREP assessment by CAs. In relation to this

there was a debate about when the baseline scenario by the Commission would be ready. The BoS thus agreed to leave this decision pending a discussion with the Commission.

## Conclusion

85. The BoS agreed with the note presented with the changes as highlighted in the discussion. The EBA would start with the communications aspects, in particular by informing banks that there would be an EU-wide stress test in 2016 whose results could be published between mid-2016 and Q3-2016.

## Agenda item 26.: Reports from Standing Committees

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

## Agenda item 27.: AoB

87. The Commission representative informed the BoS of the state-of-play of some of the technical standards on liquidity, in particular on additional monitoring metrics, submitted by the EBA but not yet endorsed by the Commission.

88. The Chairperson informed the BoS that there was a vacancy for an alternate in the Mediation Panel; however, it had been decided to increase the number of alternates from four to six. A vacancy notice for three alternate positions, together with a proposal for amending the Rules of Procedure of the Mediation Panel to allow the increase of the number of alternates, would be soon submitted to the BoS.

89. The Chairperson informed that the SRB had requested to participate in SCRePol. He invited the BoS to express their views on this request; he mentioned that although some segregation of supervisory and resolution functions within the EBA would be advisable, in the absence of objections from the BoS, the request would be accepted.

90. The EBA Director of Oversight informed the BoS of the state-of-play of the questionnaire for the assessment of equivalence of third countries.

## END OF MEETING

[signed]

**Andrea Enria**

**Chairperson**

## Participants at the Board of Supervisors' meeting

16-17 June 2015, London

Chairperson: Andrea Enria

<u>Country</u>	<u>Voting Member/Alternate</u> <sup>1,2</sup>	<u>Representative NCB</u>
1. Austria	Michael Hysek	Philippe Reading
2. Belgium	Jo Swyngedouw	
3. Bulgaria	Stoyan Manolov	
4. Croatia	Željko Jakuš	
5. Cyprus	Argyro Procopiou	
6. Czech Republic	Zuzana Silberová	
7. Denmark	Sean Hove	Brian Liltoft Andreasen
8. Estonia	Andres Kurgpõld	Jaak Tors
9. Finland	Maria Nykänen	Kimmo Virolainen
10. France	Frédéric Visnovsky	
11. Germany	- <sup>3</sup>	Erich Loeper
12. Greece	Spyros Zarkos	
13. Hungary	Péter Gábrriel	
14. Ireland	Mary Burke	
15. Italy	Luigi F. Signorini/Andrea Pilati	
16. Latvia	Jelena Lebedeva	Vita Pilsuma
17. Lithuania	Renata Bagdoniene	
18. Luxembourg	Christiane Campill	Norbert Goffinet
19. Malta	Raymond Vella	
20. Netherlands	Olaf Sleijpen	
21. Poland	Andrzej Reich	Maciej Brzozowski
22. Portugal	Pedro Duarte Neves	
23. Romania	-	
24. Slovakia	Tatiana Dubinová	
25. Slovenia	Miha Kristl	
26. Spain	Fernando Vargas/Cristina Iglesias-Sarrià	
27. Sweden	Uldis Cerps	Olof Sandstedt
28. UK	Sasha Mills	Fiona Mann

<sup>1</sup> Accompanying experts: Ingeborg Stuhlbacher (Austrian Finanzmarktaufsicht); Julia Blunck (BaFin); Marek Sokol (Czech Česká Národní Banka); Maurizio Trapanese (Banca d'Italia); Gerry Cross (Central Bank of Ireland); Mascha van der Marel, Joost Passenier and Merel van Vroonhoven (De Nederlandsche Bank); Izabella Szaniawska (Polish Komisja Nadzoru Finansowego); José Rosas (Banco de Portugal); Damjana Igljič (Národná Banka Slovenska); Lisa Robinson-Hammond and Mei Jie (UK's Prudential Regulation Authority) and Geoffrey Davies (Bank of England)

<sup>2</sup> Representatives from authorities competent for consumer protection: Bernard Sheridan (Central Bank of Ireland); Ján Jančovič (Bank of Slovakia); Lars Malmström (Swedish Finansinspektionen) and David Geale (UK's Financial Conduct Authority)

<sup>3</sup> Represented by Adam Ketessidis (BaFin)



<u>Country</u>	<u>Observer</u> <sup>4</sup>
1. Iceland	Lilja Rut Kristófersdóttir
2. Liechtenstein	Rolf Brüggemann
3. Norway	Morten Baltzersen

<u>Non-voting Members</u>	<u>Representative</u>
1. SSM	- <sup>5</sup>
2. European Commission	Dominique Thienpont
3. EIOPA	Carlos Montalvo
4. ESMA	Verena Ross
5. ESRB	Francesco Mazzaferro

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

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<sup>4</sup> Accompanying representatives from central banks: Örn Hauksson (Central Bank of Iceland); Sindre Weme (Norges Bank)

<sup>5</sup> Represented by Giuseppe Siani (SSM) and John Fell and Panagiotis Strouzas (ECB)