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EBA Staff

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14 October 2014 / 13:00-15:00

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Location: Teleconference

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# EBA Board of Supervisors Teleconference – Final Minutes

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## Agenda item 1.: Final draft RTS and ITS on Benchmarking; TFSB Mandate and Supervisory Benchmarking Process

1. The Chairperson opened the teleconference. He presented the final draft regulatory technical standards (RTS) and the final draft implementing technical standards (ITS) on benchmarking (altogether, the TS) under Article 78 CRDIV; both had been finalised following a public consultation which ended on 19 August 2014. He explained, inter alia, that a reference to the use of quartiles had been removed, and that the standardised approach (TSA) as a benchmark for market risk had been eliminated. Moreover, the EBA was proposing to use the portfolios by the Basel Committee's Group on trading book issues (the TBG-SIGTB portfolios) in 2015 for market risk, although EBA-developed portfolios should be used thereafter. Finally, the 2015 reporting reference date was proposed to be 30 June (remittance date: 11 August), whereas as of 2016 it would be 31 December (remittance date: 11 March).
  2. BoS Members supported the work submitted by the EBA, noting it was difficult to strike the right balance; however the TS would help to achieve convergence among NCAs and harmonisation with the BCBS benchmarking portfolios.
  3. BoS Members did nonetheless raise a number of concerns, among them that the use of hypothetical portfolios for credit risk could risk not leading to consistent results, and which in addition may not be consistent with the mandate of Art. 78 CRDIV; furthermore, the sharing of NCA's assessment results by the EBA may likewise be inconsistent with the legal mandate.
  4. On credit risk, it was mentioned that the TSA could be burdensome for banks to calculate and appeared to relate more to validation than benchmarking. The EBA staff clarified that the use of benchmarks based on the TSA was for relative assessment across banks, such that the distribution of the difference between the TSA and IRB risk weights could be determined. This would allow a comparison going beyond an absolute comparison of the risk weights.
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5. On reference dates, some BoS Members held the view that the 11 August remittance date was too close to the reference date and this could give rise to quality issues with the data submitted.
6. On Article 3(2)(d) RTS on identification by NCAs of internal approaches that need specific assessment, which is to be done taking into account the analysis provided in the EBA report based on a number of criteria, a BoS Member requested that it should be removed as this was similar to back-testing.
7. The addition of a review clause whereby benchmarks were to be revised after one or two years was requested. The Chairperson noted that the EBA Regulation gives the EBA a general ability to review its standards; the Commission representative also pointed out that it would not be feasible to include such a clause in the TS although different ways to accommodate it could be sought.
8. The Commission representative also requested a clarification what other internal approaches Article 3(3) RTS referred to.
9. On the principle of proportionality, one BoS Member expressed concern that proportionality was not referenced appropriately in the RTS. A specific wording change in Article 3 of the draft RTS was discussed.
10. Finally, with regard to the rotation proposed in the TS, some BoS Members asked that the possibility for rotation should be made more explicit in the TS; the Commission representative explained however that the legal feasibility would need to be confirmed by the Commission's Legal Services.
11. The second part of the discussion related to the draft mandate on the Taskforce on Supervisory Benchmarking (TFSB), and a proposed supervisory benchmarking process. The mandate, which built on the experience gained with TCOR, had been discussed at the Management Board meeting of 24 September 2014, following which some changes (remit to cover also market risk) had been introduced; on the supervisory benchmarking process, it aimed at defining the operational steps for performing the annual benchmarking exercise according to the CRDIV and RTS. The process proposed consisted of 6 different phases: preparation; data collection; analysis; interaction with NCAs; and reporting to BoS and, where necessary, recommendations for further action.
12. Some BoS Members were concerned about the TFSB reporting directly to BoS, noting that BoS dealt principally with policy matters and TFSB's work was more of a technical nature; they thus suggested that the relevant Standing Committees (SCs) should have a more direct involvement with the TFSB. Furthermore, they asked that the mandate should reflect the separation of credit and market risk work-streams.

## Conclusion

13. The Chairperson thanked the BoS for all the comments and concerns raised, both in general and in regard to the first benchmarking assessment exercise to be conducted, noting the burden caused by the amount of data requested and possible quality issues. He concluded the discussion with the following points: a) on proportionality and portfolio rotation, the Commission representative would seek the confirmation from the Commission's Legal Service on the legal feasibility; b) although no formal review clause would be inserted in the TS, it was agreed that the EBA would ensure that such a review would take place and would also communicate it externally together with the publication of the TS; c) on the reference to the TSA for credit risk, it would be clarified that these benchmarks were to be considered for benchmarking purposes and not as floors; and d) on reference/remittance dates, the dates for market risk would be maintained as proposed in the TS (aligned with BCBS), whereas for credit risk, the possibility of introducing some level of flexibility could be explored, i.e. should firms face delays or problems when adapting the reporting framework, the 2015 remittance date would be delayed a few weeks.
14. A revised version of the TS would be submitted to the BoS for approval by written procedure.
15. The supervisory benchmarking process was supported by the BoS; on the TFSB mandate, it was agreed to have teams dealing with credit risk and market risk respectively, however they would be under the TFSB to ensure that the Taskforce retained an overall view; the mandate would be amended to insert the requirement that the TFSB should first liaise with the SCRePol and SCOP Chairs however retaining direct reporting to BoS; a review clause whereby these governance arrangements would be revised after one year would also be acknowledged.
16. A revised version of the TFSB mandate would be submitted to the BoS for approval by written procedure.

## Agenda item 2.: Report on Remuneration and Allowances

17. The Chairperson introduced this topic by referring to the rules contained in the CRDIV on fixed and variable remuneration. It was recalled that the European Commission, in a letter dated 12 February 2014, had requested the EBA to assess whether or not role-based allowances, introduced by some credit institutions, complied with those rules. Accordingly, the EBA had drafted a Report with findings on this type of remuneration, and a draft Opinion addressed to the European Commission and NCAs asking to use all necessary supervisory measures to ensure that role-based allowances reflected the findings therein. Both the Report and the Opinion were presented to the BoS for adoption and subsequent forwarding to the Commission and publication on the EBA's website.
18. The UK PRA had sent a letter to the EBA Chairperson (circulated to BoS members prior to the teleconference) explaining its views on the matter.

19. Some concern was voiced by some BoS Members as to whether the findings of the Report could indeed limit or narrow down the options for the Guidelines on remuneration. The Chairperson explained that the Report intended to answer the question of compliance of role-based allowances, and that the EBA could not stay silent on this point since the relevant Guidelines would not be in force before the end of 2014.

## Conclusion

20. The Chairperson concluded by considering that the comments by BoS Members were already addressed in the Report and Opinion. He called for a vote on the Report and its subsequent publication and forwarding to the Commission, and a vote on the Opinion. The BoS adopted both.

## Agenda item 3.: Draft Consultation Paper on RTS on Materiality Thresholds for the Definition of Default under IRB

21. The Chairperson presented a draft Consultation Paper (CP) on the RTS specifying the conditions under which a NCA should set the threshold for the materiality of credit obligations past due for the purposes of default identification; the conditions should be used by all institutions regardless of whether they used IRB. The paper proposed that the threshold should be composed of a combination of an absolute and a relative limit, differentiating the former between retail and non-retail; and the latter would be defined as a proportion of the sum of the amounts that are past due by more than 90 days to the sum of all credit obligations of an obligor.

22. On the proposal on the breach of the threshold (Article 2(2)(c) according to which credit obligation past due should be considered material and the obligor defaulted where either or both of the limits were breached), a few BoS Members requested that the CP should be amended to reflect that a breach of the threshold was only to occur when the combination of both the absolute and the relative components was breached; as an alternative, one BoS Member asked to include a question on their quantitative impact. Other BoS Members supported instead the proposal presented whereby a default was triggered by the breach of either, or both the absolute and relative thresholds; the addition of more granularity on the exposures was also requested as it was felt that only retail and non-retail did not appear sufficiently detailed.

23. On the treatment of technical defaults, some BoS Member noted that it would be necessary to discriminate between technical and real defaults as there could be a risk that a large number of small (technical) exposures would be treated as real defaults, and this could lead, amongst other things, to overstating/understating capital requirements.

24. Other BoS Members considered that the proposed absolute threshold for non-retail credit (500 EUR) was too low.

25. On the proposed timeframe for institutions to implement the thresholds, some BoS Members asked that it should be considered to increase to at least three years, taking into account the changes to the rating systems that the proposal could trigger, as well as the uncertainty as to the capital required as a result.

### **Conclusion**

26. The Chairperson concluded the discussion acknowledging that there was indeed a debate on how to consider that the thresholds had been breached; he thus suggested making these points more prominent in the CP in order to receive further feedback during the public consultation. On the implementation, it was decided to leave the question as proposed in the CP with a view to receiving further feedback which would inform subsequent BoS discussions. Finally, a question on the quantitative impact of the thresholds would also be included in the CP.

**Andrea Enria**

**Chairperson**

## Participants at the Board of Supervisors' teleconference

14 October 2014

Chairperson: Andrea Enria

<u>Country</u>	<u>Voting Member or Alternate</u>	<u>Representative NCB</u>
1. Austria	Michael Hysek	
2. Belgium	Jo Swyngedouw	
3. Bulgaria	Stoyan Manolov	
4. Croatia	Damir Odak	
5. Cyprus	Argyro Procopiou	
6. Czech Republic	Zuzana Silberova	
7. Denmark	Jesper Meyer	
8. Estonia	Andres Kurgpöld	
9. Finland	Marja Nykänen	
10. France <sup>1</sup>	-	
11. Germany	Peter Lutz	Christian Denk
12. Greece	Spyros Zarkos	
13. Hungary <sup>2</sup>	-	
14. Ireland	Mary Burke	
15. Italy	Andrea Pilati	
16. Latvia	Kristaps Zalukis	
17. Lithuania	Vytautas Valvonis	
18. Luxembourg	Claude Simon	
19. Malta <sup>3</sup>	-	Graziella Gatt
20. Netherlands <sup>4</sup>	-	
21. Poland	Krzysztof Góral	
22. Portugal <sup>5</sup>	M. Adelaide Cavaleiro	
23. Romania	Adrian Cosmescu	
24. Slovakia	Tatiana Dubinová	
25. Slovenia <sup>6</sup>	-	
26. Spain <sup>7</sup>	-	
27. Sweden	Uldis Cerps	
28. UK	Andrew Bailey	

<u>Country</u>	<u>Observer</u>
1. Iceland	Lilja Rut Kristófersdóttir
2. Liechtenstein	-
3. Norway <sup>8</sup>	Morten Baltzersen

<sup>1</sup> Participant: Philippe Richard

<sup>2</sup> Participant: Judit Matusek

<sup>3</sup> Participant: Aldo Giordano

<sup>4</sup> Participant: Tom Van Veen

<sup>5</sup> Accompanied by Luis Barbosa

<sup>6</sup> Participant: Tomaž Rotovnik and Tanja Marković

<sup>7</sup> Participant: Jose-Luis López

<b><u>EU institutions/agencies</u></b>	<b><u>Representative</u></b>
1. ECB SSM	Giuseppe Siani
2. Commission <sup>9</sup>	Niall Boham
3. EIOPA	-
4. ESMA	Sophie Vuarlot-Dignac
5. ESRB	-

**EBA Staff**

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

Mario Quaglariello; Lars Overby; Delphine Reymondon; Corinne Kaufman; Jonathan Overett  
Somnier; Santiago Barón-Escámez

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<sup>8</sup> Accompanied by Sindre Weme (Central Bank)

<sup>9</sup> Accompanied by Dominique Thienpont, Tom Snels, Kai Spitzer and Sebastijan Hrovatin