



EBA BS 2020 776 rev. 1

Joint Board of Supervisors and
Banking Stakeholder Group

28 October 2020/09:30 – 12:00

Location: teleconference

EBA-Regular Use

Joint Board of Supervisors and Banking Stakeholder Group meeting – Final Minutes

Agenda item 1: Welcome, approval of the agenda and Declaration of conflict of interest

1. The EBA Chairperson welcomed the Members of the Board of Supervisors (BoS) and the Banking Stakeholder Group (BSG). He noted that it was the first joint BoS/BSG meeting in 2020 and that the current BSG has been operational since June 2020. He also informed that during the BSG meeting on 28 October, Rym Ayadi has been elected as the Chair of the BSG and Eduardo Avila Zaragoza as the Vice-Chair.

Conclusion

2. The BoS and BSG approved the agenda of the meeting.

Agenda item 2: Report on the activities of the BSG

3. The BSG Chair summarised the work plan and achievements of the previous BSG in 2019/20 and elaborated on the work of five working groups established under the BSG on capital, liquidity, recovery, resolution and risk; supervision, governance, accounting, reporting and disclosure; consumer protection; payment, digital, fintech and regtech; and sustainable finance. She mentioned that the BSG responded to several EBA consultation papers and opinions, contributed in the ESAs' review and horizontal working groups on business models and AML and CFT; organised workshops as well as met with various stakeholders.
 4. The EBA Chairperson thanked the BSG Chair for her continuous work and the BSG Members for their contributions.
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Agenda item 3: Discussion on EBA measures taken during current Covid-19 crisis

5. The EBA Chairperson introduced the item by highlighting a need to have a harmonized understanding of the key metrics needed to effectively monitor the Covid-19 impact and to coordinate the unwinding of various support measures implement in response to the Covid-19 crisis.
6. The EBA Head of Risk-based Metrics Unit (RBM) presented an overview of all Covid-19 actions taken so far by the EBA and focused on some measures, such as dividends, capital and liquidity buffers, leverage ratio, recovery planning and ICT risk management for which further discussion and coordination was warranted and which may be followed by a number of individual actions.
7. He summarised preliminary evidence on the impact of the crisis and related measures taken during spring 2020 based on the reporting framework put in place with a view of identifying the early indicators of related risks.
8. He explained that the first focus during the crisis was on operational relief, followed by regulatory relief and afterwards loosening the resolution pack measures. He explained that now that all possible short term measures have been taken and that the current focus should be on business as usual.
9. He underlined that during the crisis financial institutions continued their role of credit suppliers and supported the economy. He explained that given the fact that the start position of financial institutions was very robust and strong in terms of credit-metrics, no banks defaulted so far. However, at this point, banks are facing quality deteriorations in their credit portfolios. Therefore, narrow monitoring avoiding liquidity problems turning into solvency issues is key.
10. The EBA head of RBM also pointed out that the structure of balance sheets of banks changed during the crisis due to the fierce increase of public guarantees which shifted the risk from banks to governments, with banks showing low risk-weights on sovereign exposures. However, he mentioned that once a vaccine is offered, this risk picture and B/S structure might shift again relatively quickly. And due to these quick shifts in B/S, he believes the only way forward is keep on focusing on risk metrics.
11. Furthermore, he mentioned that currently a lot of effort is done on risk monitoring and that benchmarking (NPL metrics, etc.) will continue.
12. Finally, he referred to consumer-centric approach to non-performing and forborne exposures. He underlined that one of the main takeaways of the last crisis is that we should not lose consumer confidence in banks, and that NPE management strategies should also take into account consumer protection considerations. Such consumer protection aspects are

already included in many EBA guidelines, but may need to be reinforced in the context of the rise of NPLs.

13. He concluded by stressing that the regulatory framework was robust and flexible to address the crisis but that fine-tuning of some elements could not be excluded.

He illustrated this by pointing out that bank capital buffers are not being used currently, which might have two reasons, being (i) banks hesitance because it might cause a bad signal to the market or (ii) no need for using it.

14. A presentation by the BoS Member representing Portugal followed. In her presentation, she summarised the impact of Covid-19 on their national economy and provided an overview of main measures implemented in response to the crisis, in particular loan moratoria, public guarantee schemes and flexibilisation of the use of Pillar 2 Guidances (P2G) and capital buffers. She stressed that the level of uncertainty was still very high and therefore, there was a need to address in a cautious way the exit strategy from the Covid-19 crisis and the measures needed to avoid cliff effects.

15. Finally, the BSG representative referred to the BSG Opinion paper on Covid-19 banking measures and recommendations towards a sustainable recovery (published on the EBA website on 22 June) which was produced as a follow up to the BSG contribution to FISMA meeting on 28 May 2020. During this meeting, the BSG had provided an overview of the relief measures by banks targeting consumers and businesses applied across the EU with an aim to better understand their features, practical applications, and related problems. She welcomed the measures taken by the EBA and other policy makers and provided a best effort assessment of their impact as disclosed by some banks in their Q2 earnings release. According to the BSG members, the impact can be split into 2 legs. On the one hand a reduction in the level of the MDA trigger of around 100bps linked to the change in composition of Pillar 2 Requirements (P2R) and a reduction of Countercyclical Capital Buffer (CcyB) and SRB (this average shows a wide dispersion of outcomes, with some banks benefiting less than 100 bps, and others more than 200bps). And on the other hand the impact of RWA related measures, notably around IFRS9 and the CRR quick fix, where again the range of disclosed impact is wide (between 10 to 50 bps across banks). The BSG representative welcomed the upcoming publication by the EBA of a more comprehensive analysis based on the Covid templates provided by the banks.

16. According to the BSG paper, some measures will impact the banks Q3 results (Central Bank deposits exemptions from leverage exposure) and Q4 results (possible implementation of the Software RTS as well as the G-SIB cross jurisdictional score). She pointed out that some measures are already expiring, notably the moratoria guidelines, which will have a negative impact as from Q4, and that other measures will be phased-out through 2021 and 2022, impacting negatively banks while they will have to face the materialization of credit risk.

She noted that many of the challenges identified in the June BSG paper were still relevant in the ongoing Covid-19 crisis, in particular: (i) regulatory uncertainty continues to be high, in the

short term (software, G-SIB, ...) and longer term (exit from Covid measures, Basel III finalization). Such uncertainty weighs on the capacity/willingness of banks to extend supportive measures, as shown in the recent ECB survey showing a notable tightening of credit conditions; (ii) fragmentation, as measures such as moratoria and state guaranteed loans have been taken at national level, with differences that led to different prudential treatment, notably due to the rigidity of the Credit Risk Mitigation rules; (iii) buffer usability; (iv) balance between multiple constraints. She explained that so far, the relief had impacted exclusively the CET1 ratio whereas banks have to monitor other regulatory metrics, notably MREL, G-SIB and leverage. Therefore she believes the amount of unlocked lending, as estimated by the EBA, was misleading, given that, if banks were to lend those amounts, they would be in breach of other requirements. According to her, a better balance in the relief measures across the various constraints should be targeted, including on MREL where no flexibility at all was provided; (v) NPL management, she indicated that the NPL action Plan had to be revised to take into account the Covid situation, and that it should not focus exclusively on transferring NPL exposure to investors, but that it should rather address the challenges of NPL management in the bank balance sheet; (vi) from a consumer perspective, challenges include the fragmentation of Covid responses, leading to unlevel playing field within the EU, in areas such as moratoria, related fees and charges. She stresses that ensuring a safe and secure environment for online payments and addressing over-indebtedness issues for households and SMEs in particular are both priorities.

Going forward, the BSG has created a horizontal task-force to continue to contribute to the monitoring and policy recommendations related to the Covid crisis. Finally, she stressed that it was crucial to achieve balance between the risk management and the recovery of the economy.

17. __Several BSG Members commented on the loans-related issues, in particular with regard to the potential raise of non-performing loans and their impact on the economy.
18. __One BSG Member summarised the Portuguese national situation on (non)availability of payment moratoria for consumers and related indebtedness. He explained that a lot of consumer loans (such as car loans) in Portugal are granted by private non-bank institutions and that more than half of this kind of institutions stopped granting moratoria which has led to the failure of repaying debts of Portuguese households. Next to that he mentioned that in Portugal consumers have to pay interests over interests due to the design of the moratoria, as an example a mortgage loan of 30 years where 20 years is still due that is granted a moratoria period of 12 months, will result in the client paying 1000 euro more interest at the end of the loan). The BoS member representing Portugal responded that granting moratoria is not only the responsibility of supervisors. She explained that in Portugal the supervisor monitors what the EBA Guidelines mention and that in some cases moratoria is a suspense of interest while the EBA Guidelines state that moratoria should be interest neutral.
19. One BSG Member asked for clarification on implemented public support, more specifically on the nature of the public support granted. He wondered whether public support also

includes non-repayable grants. The BoS member representing Portugal responded that in terms of grants and other kinds of supports to companies, so far most of them were loans. But that currently, more governments think of general sector related support and equity related measures.

20. One BSG member asked whether the EBA has some indications on the amounts of credits issued during the last months and pointed out that a credit crunch would impact the figures on repayments of loans. He also asked whether figures on consumer demand are available. The BSG presenter responded that the ECB disclosed that between March and July 2020 an unprecedented amount of €250 bn of loans have been issued by banks. According to her, this did not result in an increase of the risk weighted assets given the combination of state guarantees and RWA relief measures, but it resulted in a significant increase in leverage exposure as the loans are weighted for 100% in all size based metrics.
21. One BSG member pointed out that so far we have been able to maintain financial stability by instruments and public support by e.g. public guarantee scheme and regulatory measures. He wondered whether we should not urge supervisory authorities to apply restricting rules.
22. The BSG representative highlighted that it is not because moratoria guidelines have expired that every moratoria should lead to forbearance, because it might be that this company or individual client is likely to be in good shape in a few months. But she warned that in reality, the 1% NPV loss cap rule, which is included in EBA usual NPL framework will be hit automatically when banks provide 6 months moratoria and that in practice banks will not be able to treat differently moratoria granted to strong and weak clients, contrary to proper management of risk. On the equity support measures being considered nowadays, she explained that supporting equity may not take the form of nationalization or grants, but rather encouraging private investments, and that therefore the Capital Market Union has to play an important role. One other priority of the CMU is securitization, and the EBA has an important role to play, notably in the ongoing work on Significant Risk Transfer.
23. Another BSG member representing the industry pointed out that focus should be on quality deterioration and striking the right balance between asset-quality and providing support to companies and individuals. Therefore, according to her, new measures should be more related to equity instead of debt and more clarity and guidance from supervisors is needed from regulatory authorities.
24. Another BSG member noted the difference in tone between the EBA stance that no further measure is urgently needed, and the recent article by the SSM Chair which provided very worrying estimates on potential NPLs, and advocated for the creation of a European Asset Management Company. She wondered how to reconcile those 2 opposite views.
25. In his response, the Head of RBM explained that the EBA has amended its Covid-19 reporting to collect data that would help to analyse market developments and impact of the crisis on the banking sector. He also mentioned that there were various types of guarantees across

different countries and that they were structured in different ways as it was up to national governments to establish these measures. He stressed that the published EBA Guidelines on moratoria were intended as a short-term measure providing relief and liquidity support. He pointed out that the longer the crisis goes on, the more likely that a liquidity support turns into a credit issue.

26. The EBA head of Economic Analysis and statistics (EAS) intervened by stating that the G-SIB RTS is ready, but that, based on EBA estimates using 2019 data, no European bank would benefit from a lower bucket. In any case he reminded that the final decision on individual cases would be taken by the Basel Committee.
27. The EBA Chairperson agreed on the observation of many members that a lot of Member States implemented the moratoria very differently and underlined that it is up to the EBA to secure the level playing field. The EBA Chair concluded by indicating that the EBA is monitoring the situation, including a potential raise of non-performing loans, and analysing various scenarios in order to prepare for currently uncertain market developments and be ready to address and manage them.

Agenda item 4: Discussion on the European Commission's Digital Finance Strategy

28. The EBA Chairperson reminded the BoS and BSG that the European Commission (EC) published on 24 September 2020 its Digital Finance Strategy (DFS) which entails four key areas being a digital finance strategy, a retail payments strategy, a legislative proposal on Market in crypto assets (MiCAR) and a legislative proposal on a Digital Operational Resilience Act (DORA).
29. In his presentation, the BSG representative elaborated on the four main priorities of the Digital Finance Strategy being (i) removing fragmentation in the Digital Single Market, (ii) provide an EU regulatory framework facilitating digital innovation (crypto-assets, cloud computing, AI, DLT, etc.) in the interest of consumers and market efficiency, (iii) promoting data-driven innovation in finance by establishing a common financial data space in line with the Commission's Data and (iv) address the challenges and risks associated with digital transformation (financial stability, digital operational resilience and protecting investors and consumers strategy).
30. The BSG representative concluded his presentation by pointing out the main challenges for implementing the digital financial package of which one is the "same activities, same risks, same rules, same supervision" principle.
31. The EBA Head of Banking Markets, Innovation and Products Unit (BMIP) explained briefly the six main topics (digital identity, RegTech& SupTech, AI, open finance, supervisory data and regulatory perimeter) envisaged under the new DFS proposed by the Commission on which EBA's involvement is expected and stressed that in several topics this is a continuation of the EBA's work.

32. She continued with a presentation on legislative proposals for MiCAR and DORA with focus on EBA's envisaged role under these proposals (policy and supervisory).
33. Finally, a BoS Member presented new powers of competent authorities (CAs) under the legislative proposal on MiCAR and DORA, and first observations on challenges. During his presentation he focussed on the role of NCAs and the interaction between NCAs and the EBA, including observations on prudential perspective.
34. On MiCAR policy objectives, the BoS representative expressed his preliminary views on customer protection, legal certainty, monetary policy impact and financial stability. He also gave some thoughts for consideration on the transfer of competences between NCAs and EBA, hereby he expressed his doubts on weak direct (non-binding) powers for both.
35. On DORA, The BoS representative, expressed his preliminary views and articulation between the Lead Overseer ESA's role and NCAs powers. He stressed that DORA includes a global precedent of regulation of a non-regulated industry i.e. the non-financial sector (cloud/big data service providers). He pointed out that according to the new DORA regime, the ESAs oversight regime applies to critical services providers but the criteria for the criticality designation can be discussed. He also wondered since the designation of Lead Overseer (ESA) is based on the value of assets of the financial entities in the remit of ESA if there would be consistency in supervision of providers and if the cross-sectoral Oversight Forum would be sufficient. According to him, as the industry uses more case and/or product criteria, referring to cases or products to determine the lead overseer might be more adequate.
36. One BSG Member stressed the issue of regulating currently not-regulated industry and a transition into the new regime. She was of the view that the EBA and the BSG could have a key role in the transition given their knowledge and experience. She added that it would be good to see in the level 1 text of the Commission the input from the EBA.
37. One BSG Member raised concerns related to the enforcement of any new rules, in particular with regard to third party cooperation and on the issue of investments for the operability. She questioned who should be financing these new legislative proposals and who should benefit from them. Another BSG member acknowledged the question on the issue on investment and raised the option of investments made by banks and market participants to make the strategy successful.
38. One Member asked who would regulate decentralized services such as non-custodial wallets (e.g. Argent and Metamask) or decentralized exchanges (e.g. Uniswap). He stated that even if centralized exchanges are regulated it is easy to move crypto-assets to non-regulated services which are decentralized.
39. The BSG presenter pointed out that it is important to consider how to protect investors and end-users and how to share the risk between the digital platforms in crypto assets and other players from the banks.

40. The BoS presenter shares the additional comment on the enforcement of EU players and on the concerns on the transition to a new regime. He added that there is not a solution yet and that we are now in the phase of thinking and determining how to go forward.
41. The Head of BMIP noted the concerns and told that she is fully aware that there are a lot of high level discussions needed and a lot to think about on the coordination and cooperation and that the envisaged EBA technical standards will elaborate technical details on number of issues raised, so there will be opportunities to discuss these further.
42. The Chairperson concluded by stressing that the Digital Finance Strategy aimed at more cross-border and cross-sectoral activities and that the EBA would need to address a number of challenges in this regard.

Agenda item 5: AOB

43. The Joint BoS BSG meetings in 2020 are scheduled 28 April and 28 October from 9-12 am.

Participants of the Joint Board of Supervisors' and Banking Stakeholder Group conference call

28 October 2020

BoS Chairperson: Jose Manuel Campa

BoS

<u>Country</u>	<u>Voting Member/High-Level Alternate¹</u>	<u>National/Central Bank</u>
1. Austria	Helmut Ettl	Karin Turner-Hrdlicka
2. Belgium	Jo Swyngedouw	
3. Bulgaria	Stoyan Manolov	
4. Croatia	Martina Drvar/Sanja Turkovic Petrinic	
5. Cyprus	Stelios Georgakis	
6. Czech Republic	Zuzana Silberová	
7. Denmark	Jesper Berg/Thomas W. Andersen	Peter E. Storgaard
8. Estonia	Andres Kurgpold	Timo Kosenko
9. Finland	Jyri Helenius	Katja Taipalus
10. France		
11. Germany	Raimund Roeseler	
12. Greece	Spyridoula Papagiannidou	
13. Hungary	Csaba Kandrac	
14. Ireland	Gerry Cross	
15. Italy	Andrea Pilati	
16. Latvia	Ludmila Vojevoda	Vita Pilsuma
17. Lithuania	Marius Jurgilas/Jekaterina Govina	
18. Luxembourg	Christiane Campill/Martine Wagner	Christian Friedrich
19. Malta	Christopher Buttigieg/Pierre Paul Gauci	Oliver Bonello
20. Netherlands	Maarten Gelderman/Sandra Wesseling	
21. Poland	Kamil Liberadzki	Pawel Gasiorowski
22. Portugal	Ana Paula Serra	
23. Romania	Adrian Cosmescu	
24. Slovakia	Vladimir Dvoracek/Tatiana Dubinova	
25. Slovenia	Primoz Dolenc/Damjana Iglic	
26. Spain	Angel Estrada/Alberto Rios	
27. Sweden	Karin Lundberg	Camilla Ferenius

<u>Country</u>	<u>Member</u>	<u>Representative NCB</u>
1. Iceland	Finnur Sveinbjörnsson	
2. Liechtenstein		
3. Norway	Morten Baltzersen	Sindre Weme

<u>Observer</u>	<u>Representative</u>
1. SRB	Sebastiano Laviola

Doris Oswald (OENB), Pascal Hartmann (FMA); Kurt Van Raemdonck (NBB); Jose Rosas (Banco de Portugal); Michele Lanotte (Bank of Italy); Eida Mullins (CBI); Izabella Szaniawska (PFSA);; Petroula Georgaraki, (SRB); Vincent Woyames (ECB);

Other Non-voting Members

1. ECB/SSM/ESRB
2. European Commission
3. EIOPA
4. ESMA
5. EFTA Surveillance Authority
6. ESRB

Representative

Korbinian Ibel, Linette Field, Carmelo Salleso
Martin Merlin
Kai Kosik
Tomas Borovsky
Marta Margrét Ö. Rúnarsdóttir
Francesco Mazzaferro

EBA Staff

Executive Director	Francois-Louis Michaud
Director of Operations	Peter Mihalik
Director of Banking Markets, Innovations and Consumers	Piers Haben
Director of Economic Analysis and Statistics	Mario Quagliariello
Director of Prudential Regulation and Supervisory Policy Department	Isabelle Vaillant

Philippe Allard; Lars Overby; Jonathan Overett Somnier; Delpine Reymondon; Angel Monzon; Olli Castren; Dirk Haubrich

Tea Eger

BSG members

Credit institutions

Montserrat	Martinez Parera	Caixa Bank Group	Spain
Christian	König	Association of private Bausparkassen	Germany
Julia	Kriz	Raiffeisen Bank International AG	Austria
Eduardo	Avila Zaragoza	BBVA Group	Spain
Johanna	Orth	Swedbank	Sweden
Véronique	Ormezzano	BNP Paribas	France
Sébastien	De Brouwer	European Banking Federation	Belgium
Erik	De Gunst	ABN AMRO Bank	Netherlands
Søren	Holm	Nykredit Realkredit	Denmark
Lars	Trunin	TransferWise	Estonia
Elie	Beyrouthy	European Payment Institutions Federation	Belgium
Johanna	Lybeck Lilja	Nordea Bank	Sweden

Employees

Leonhard	Regneri	Input Consulting GmbH	Italy
Andrea	Sita	Uil Unione Nazionale Lavoratori	Italy

Consumers

Patricia	Suarez Ramirez	Asufin	Spain
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Jennifer	Long	International Monetary Fund	Ireland
Monica	Calu	Asociata Consumers United	Romania
Tomas	Kybartas	The Alliance of Lithuanian consumer organisations	Lithuania
Vinay	Pranjivan	Associação Portuguesa para e Defesa do Consumidor	Portugal
Martin	Schmalzried	Confederation of Family Organisations in the EU	Czech Republic
Christian	Stiefmueller	Finance Watch	Austria
<u>Users of Banking Services</u>			
Christophe	Nijdam	Proxinvest	France
Rens	Van Tilburg	Sustainable Finance Lab	Netherlands
Lyubomir	Karimansky	Independent Consultant	Bulgaria
<u>Representatives of SMEs</u>			
Constantinos	Avgoustou	Founder and non- executive director of several enterprises	Cyprus
<u>Academics</u>			
Rym	Ayadi	City University of London and CASS Business School	Tunesia
Edgar	Prof. Dr. Löw	Frankfurt School of Finance and Management	Germany
Monika	Marcinkowska	University of Lodz	Poland
Concetta	Brescia Morra	University of Roma	Italy

For the Board of Supervisors

Done at Paris on 11 January 2021

[signed]

José Manuel Campa

EBA Chairperson