



EBA BS 2022 543 rev. 1

Board of Supervisors

14 September 2022

Location: teleconference

EBA Regular Use

Board of Supervisors 14 September 2022 – Minutes

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

1. The Chairperson welcomed the Members of the Board of Supervisors (BoS). He reminded the Members of the conflict of interest policy requirements and asked them whether any of them considered themselves as being in a conflict. No Member declared a conflict of interest.
2. The Chairperson asked the BoS whether there were any comments on the draft agenda. There were no comments on the agenda.
3. The Chairperson welcomed new Alternates from Italy – Mr Francesco Cannata and from Iceland – Mr Gísli Óttarsson.
4. Finally, the Chairperson informed the BoS that the Minutes of the BoS conference call on 21 June 2022 have been approved in written procedure.

Conclusion

5. The BoS approved the agenda of the meeting.

Agenda item 2: Update from the EBA Chairperson and the Executive Director

6. The Chairperson updated the Members on three items.
 7. Firstly, the Chairperson informed that following ultimately unsuccessful challenge to the Product Oversight and Governance Guidelines, the French Banking Federation launched a challenge in the French courts to the ACPR's decision to comply with the EBA's Loan Origination Guidelines. In July, the French Conseil d'Etat concluded that the Guidelines were clearly within the EBA's scope of action and consistent with EU law and did not need to refer
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the case to the European Court of Justice. He also thanked the ACPR for a close cooperation between the respective legal teams.

8. Secondly, the Chairperson summarised main topics discussed during the EUROFI and a subsequent informal ECOFIN meetings, in particular related to prudential requirements discussions, new EBA's mandates in the area of cryptocurrencies, securitization as well as increasing concerns related to real estate markets and energy prices. In this regard, he mentioned that on 13 September 2022, the EBA has received a letter from the European Commission (EC) requesting the EBA opinion on the response to the current level of margins and of excessive volatility in energy derivatives markets which followed discussions with the Commissioner McGuinness. The EC, considering the urgency of the issue, asked for the EBA's opinion by 29 September 2022.
9. Thirdly, the Chairman updated the BoS on the recent discussions at the Basel Committee level related to the status of Basel III implementation, priorities of the Basel Committee in the area of cryptocurrencies and climate issues.
10. The EBA Executive Director updated on three points.
11. Firstly, the Executive Director informed that the EBA has received its EMAS certification for the next three years. The EBA was one of the first agencies to receive this certification which recognised the EBA's commitment and continuous efforts to improve its environmental performance.
12. Secondly, the Executive Director referred to EBA's actions to prepare for possible energy consumption tensions during winter. The EBA could build on the initiatives that led to the EMAS certification and entailed a reduction in energy consumption through targeted actions related to the sources of energy, cooling, heating, lightning. The situation would continue to be closely monitored with the landlord and Paris-La Defense organisation.
13. Thirdly, the Executive Director informed that since 01 July 2022, the EBA has implemented the 01 April EC's Decision on working time and hybrid working by analogy. The implementation was based on three principles (trust, consistency, accountability) and the EBA would assess it after a few months of practice, which would include a staff survey prepared by the Staff Committee on the performance in autumn.
14. The EC representative explained that ESMA has also been asked to consider any measures to minimise the liquidity challenges currently faced by energy companies, use of derivatives cleared via central clearing counterparties (CCPs) and to liaise with the EBA on this matter.
15. The BoS Members did not raise any comments.

Agenda item 3: Risks and vulnerabilities in the EU

16. The Director of Economic and Risk Analysis Department (ERA) provided an analysis of current risks and vulnerabilities in the EU banking sector. He summarised that banks faced a macroeconomic outlook with a high risk of a recession and said that the main concerns were energy supply uncertainties stemming from the ongoing conflict in Ukraine, geopolitical uncertainty, inflation pressures and resulting monetary policy tightening. Imminent gas rationing shock pushed energy prices rapidly higher, preventing inflation abating despite the multiple rate increases by several central banks. He noted that banks capital and liquidity buffers remained at robust levels according to preliminary Q2 2022 data; banks continued lending during Q2 and asset quality further improved but the volatility remained elevated. Some asset quality issues were however visible for energy intensive sectors and there was a concern that risk from real estate exposures could materialise as policy rates increase further. The Director of ERA also mentioned that although the sovereign-bank nexus has weakened, banks were still exposed to government policies such as taxes on banks' earnings and new mortgage payment holidays. Furthermore, worsening funding market conditions may make it difficult for banks to replace TLTRO funding and comply with MREL requirements. With regard to the policy support, the Director of ERA informed that the EBA was planning to prepare a Covid-19 closure report summarising the risks related to the exit of Covid-19 policies by the end of 2022. Finally, he focused on the EC's request related to higher and more volatile energy prices and summarise current bank practices. On bank exposures to the energy sector, he noted that commodity derivatives represented only a small part of EU banks' portfolio (less than 3% of total Market Risk SA own funds requirement) and that banks' exposure towards energy and gas sector was EUR 0.3tn. It increased by more than 20% relative to last year. He concluded by outlining possible relief measures.
17. A presentation by German BoS Members followed. In their presentation, they focused on the impact of the challenging energy supply and pricing situation on the German economy and banks. They noted that according to the latest forecasts of economic research institutes high energy prices would push Germany into recession and to mitigate adverse effects, the German Government has already implemented several measures, such as government support for struggling energy distributors, or charges on excess profits on non-gas related electricity producers. They mentioned that the most affected were key industry sectors – chemical, metal and glass industry - which were highly dependent on electricity and natural gas supply as inputs. In relation to the banking sector, the Members summarised that the banks were well-capitalised, the aggregated NPL ratio slightly declined and aggregate loan loss provision were marginally declining. However, the first indications of tighter credit standards for loans to enterprises were observed in the second quarter of 2022 and the turnaround in interest rates had an overall negative effect on the return on equity of German banks, in particular on savings banks and cooperative banks. Higher interest rates led to a depreciation of security prices and lowered the net income. They concluded by stressing a need for closer banking supervision and continuous exchange of views at the experts' level.
18. Several Members updated on their national market developments. One Member explained urgent national governmental measures implemented in response to the developments on the energy derivatives market and increased prices. Some Members agreed with the EBA's

presentation that their markets' exposure to energy sectors were limited. A number of Members noted that while various Covid-19 relief measures were still in place, some new measures, such as moratoria for households, state guarantees, or energy relief measures have been recently implemented and therefore, it was too early to predict future developments. With regard to the repayment of maturing central bank funding, several Members confirmed that their banks would use their central banks' reserves but acknowledged that they would have to make more use of wholesale funding and that this would be more expensive for them. One Member mentioned an increase in NPLs as a consequence of the increase of the interest rates and the current geopolitical developments. He said that their public debt was relatively high and it was the major source of vulnerability. Other Members noted decreased consumer consumption. Some Members observed weakening of the sovereign-bank nexus and some said that it was too early to conclude as this could change in the future. A number of Members expected a slowdown of the economy in the coming months even if, at the moment, they have not observed major negative impacts. One Member asked for collective discussions on supervisory and regulatory preventive actions. Other Member said that issue of MREL issuance should be addressed as potential risk, given that it has become very expensive especially to the small and medium sized banks and there may be banks that still have a significant amount to issue. Furthermore, there is only 1.5 years left to issue, so it could be useful to monitor whether any risk could arise. One Member compared the current situation with the situation in the 70s. The similarity between then and now was that loan loss provisions were low when inflation levels started to rise. The important difference was that banks in the 70s were able to absorb losses to the larger profitability. NII was relatively higher (compared to current), and accounting losses only became visible in the beginning of the 80s. In the current economic environment however, profitability was low, making loss absorption more difficult. The Member emphasized that banks have to careful with dividends and share buybacks.

19. The ECB Banking Supervision representative confirmed a need for close monitoring of the energy sector and its sound risk management. He said that the energy volatility was an issue which, however, should be manageable.
20. The ESRB representative stressed that the ESRB has been closely monitoring market developments and that short term funding and funding in foreign currencies were sources of concern. She noted that conservative risk management of banks would be preferable and that banks should be able to early indicate potential losses.
21. The Chairperson concluded by noting the comments and stressed that challenging market developments could be expected. Even if the banking sector has not been exposed to major direct impacts, in particular with energy-related issues, the supervisors and regulators should closely monitor it in order to develop relevant measures. He added that the EBA would draft a response to the EC letter and organise an ad hoc BoS conference call to discuss it.

Agenda item 4: EU-wide climate risk stress test

22. The Chairperson introduced the item by reminding the BoS of the legal mandate in the EBA founding regulation to run EU-wide climate risk stress tests as part of the EBA's risk assessment on the banking sector. This mandate has been further strengthened and expanded by the Renewed Sustainable Finance Strategy published by the EC last July, which introduced additional mandates for the EBA, ESAs and the ECB on climate risk stress test.
23. The Director of ERA first updated the Members on the ongoing industry consultation regarding the 2023 EU-wide stress test methodology. He said that following the approval of the preliminary 2023 stress test package by the BoS, the EBA launched the industry consultation on 21 July 2022. Participating banks had the possibility to provide feedback on the draft methodology, templates and template guidance via competent authorities (CAs) by 15 September 2022. On 20 September 2022, a workshop with banks in which selected banks had the opportunity to present their feedback on particular risk types was held, followed by a discussion among all participating stakeholders. The Director of ERA continued with the climate risk stress tests. The Director informed that in addition to the mandate in the EBA Regulation and the Renewed Sustainable Finance Strategy's mandates (RSFS), the EBA was also mandated to issue Guidelines for supervisors and banks on ESG stress testing, giving priority to environmental aspects. According to the RSFS mandates, the EBA and other ESAs should perform regular climate change stress tests or scenario analyses individually for each sector (as for the current EU-wide stress test). In addition, as one-off exercise, the EC would mandate the ESAs, and ask the ECB, to conduct a coordinated one-off system wide climate change stress test across the financial sector to assess the resilience of the financial sector (banks, insurances, and funds). In order to fulfil these mandates, the EBA was proposing two ways forward for performing the regular and the one-off climate risk stress test – 1) Sequential approach: a bottom-up exercise in the short term combined with a gradual convergence to a top-down framework in the long-term, 2) Top-down approach. While the option 1) would help to gradually invest in tools and data, and at the same time would encourage banks, in the short term, to enhance their internal risk management and data infrastructure for assessing climate risks in line with the stress testing objectives, option 2) may be more efficient, as it would concentrate the work and the EBA resources on one single project, which was the long-term target. In addition, would be less burdensome for the industry. However, it would be hard to finalise it by the expected deadline, unless relying on the ECB and other CAs' support.
24. The BoS supported the work. A number of Members supported option 1) and argued that the exercise would benefit from the knowledge and best practices of the stakeholders who would contribute to developing the methodology. Some Members raised concerns related to the resources for both banks and CAs and said that the exercise could only start after the end of the regular EU-wide stress test at the end of 2023. Several Members said that the EBA should first do the one-off exercise in 2023 and in a sequential way followed by the regular exercises as of 2024. Some Members noted that doing a top-down exercise would not strengthen the capacity of banks to deal with climate related risks. A few Members were of the view that the exercise could be integrated into the usual EU-wide stress test, but the integration would be a long-term project. Other Members did not support the integration of climate risks stress tests into the regular EU-wide stress test given separate objectives of these exercises and stressed

that the EBA should explain that a climate stress test would not have immediate implications for capital requirements. A few Members noted due to the different objectives of a climate stress test, the exercise could be complemented with impact on indicators other than capital adequacy. One Member asked for close liaison with ESMA and EIOPA who had similar mandates. A few Members, noting upcoming challenging energy developments, argued for following a pragmatical top-down approach with regard to the one-off exercise and said that more focused work should be done in a long term in relation to the regular exercise.

25. The ECB Banking Supervision representative noted that the objective of the stress test was different from the ECB climate stress test and said that the one-off exercise should be done in the most efficient way in a top-down manner. This was supported by several Members.
26. The ECB representative stressed different objectives of the climate and usual EU-wide stress tests and said that the integration of the climate test into the usual one would be technically challenging.
27. The Chairperson concluded by noting the views of the BoS on the importance of the topic and said that while the sequential bottom-up approach was resource intensive for banks and CAs, it would be preferred for the regular exercise and would be important as learning exercise for both banks and CAs. On the other hand, the one-off exercise would benefit from a simplified and pragmatic approach. Both exercises should, however, be done separately from the usual EU-wide stress test and the EBA should send the message that the climate risk stress test was a different exercise, and it would not be merged in the regular EU-wide stress test.

Conclusion

28. The BoS supported the work on the sequential approach on the climate risk stress test.

Agenda item 5: Final draft of the 2023 EBA Work programme

29. The Chairperson introduced the item by reminding the BoS of the discussion at the last BoS meeting in June and the recommendations of the Advisory Committee on Proportionality (ACP) on the 2023 Work programme.
30. The Executive Director continued by noting that the Work programme was to be sent to EU institutions by 30 September. He then summarised the adjustments made to the Work programme since the June BoS meeting. The tabled version aimed to reflect the BoS discussions and the ACP recommendations. It also took account of new mandates and recent developments, notably the Funds Transfer Regulation (FTR) in the area of AML/CFT, but also the political agreement reached on DORA and MiCA. This led to an update of outputs and deadlines for some activities and of related deliverables, compared to the earlier version based on the situation as of April / May. In the absence of dedicated resources foreseen for MiCA and DORA in 2023 and 2024, preparatory work would have to be done with existing resources and with the assistance of CAs, which would be contacted for staffing SNE positions. It thus was necessary to identify areas in which reprioritisation and redeployments may be necessary

– as indicated by revision marks and notes in the document. Against that background, there was a systematic review of the activities. As a result, their number was reduced from 25 in the previous version to 19 now (coming from 37 in 2020). The Executive Director explained that this reduced number of activities would allow for increased synergies, easier readability, and a better organisation and coordination of the EBA’s work. It also brings the activities closer in line with the June 2021 reorganisation.

31. He mentioned that prior to the BoS, a revised draft was reviewed by the MB, giving rise to good feedback, which was reflected in the version tabled at the BoS and in the cover note. He ended by noting that the Work programme, while challenging, was manageable thanks to synergies and the support of CAs.
32. The Members supported the work and welcomed more focused and streamlined drafting as well as clear references to the ACP recommendations, to recent legislative developments and related mandates, but also appreciated the proposed scope for reprioritisation. Two Members suggested giving more visibility to the topic on securitisation, not least in the light of evolving economic and funding conditions. One Member proposed replacing the reference to the “top-down” approach for stress test with “hybrid” approach in line with the language used in an earlier EBA communication in July, and also expressed some concern about embarking too early on implementation reviews of the SREP Guidelines and suggested not to refer to the thematic reviews that are recommended in that context by the ACP. One Member noted that redeployment of resources might be challenging and asked for further analysis of resources allocation, noting the, in their view, high proportion of resources for coordination and support activities as well as management. They also enquired about the adequacy of the resources for the ‘Data infrastructure and services...’ activity, given that there is significant work going into data quality assurance to support core activities.
33. After thanking Members for their feedback, the Executive Director specified in his response that there are several securitisation-related tasks envisaged to be completed in 2022, and that more are already included in the work programme for 2023, although it can be checked if the message regarding the work’s importance can be tweaked. He furthermore noted that the language around the stress-testing approach could be adjusted to reflect the EBA communication more closely, whereas with regard to the SREP GL he clarified that the EBA was finalising the work programme for peer reviews and that the comment would be considered in that context. As concerns the resources allocation, he clarified that a number of coordination and support activities did actively contribute to policy work, as was notably the case for the ‘EBA governance, external affairs, communication’ activity – which was responsible among other things for equivalence work – but also for the ‘Legal and compliance’ or the ‘Regulatory impact assessments’ activities which contributed to policy mandates. The Executive Director noted that these aspects, including the resources for ‘Data infrastructure and services...’, would be subject to further consideration, possibly for the next SPD, on which work would start shortly.

34. The Chairperson concluded by noting the BoS's very large support and said that the final draft would be sent for a fatal flaw review and subsequently submitted to the EU institutions by the end of September. While the document was to be considered as approved it could be reflected how we can be more ambitious in the area of securitization.

Conclusion

35. The BoS approved the 2023 EBA Work programme by consensus, subject to final fatal flaw review.

Agenda item 6: Draft peer review report on ICT Risk assessment under SREP

36. The Chairperson introduced the item by mentioning that as part of the Work Plan 2020-2021, the EBA has conducted a Peer review on the ICT Risk Assessment under the SREP and the application of the EBA Guidelines on this topic. The Ad Hoc Peer Review Committee has prepared the tabled draft report summarising the outcomes of the peer review.
37. The Chair of the Ad Hoc Peer Review Committee continued by noting that in line with the peer review methodology, the draft peer review report was shared with the CAs in order to seek comments on the main findings. The Ad Hoc Peer Review Committee has also consulted the Management Board on the draft report in particular with a view of getting feedback on maintaining consistency with other peer reviews and to ensure a level playing field. On the outcomes, she mentioned that the CAs across the EU have largely implemented the Guidelines and applied them in their supervisory practices. In line with the Guidelines and with the general SREP framework, the CAs have applied a risk-based approach to the assessment of ICT risk where the frequency, scope and depth of the assessment correlated with the level of ICT risk in the institutions. There were some general difficulties faced by the authorities mainly in terms of the limited number of specialised ICT resources, the application of proportionality in the ICT risk assessment under SREP, and on the integration of the ICT risk assessment outcomes into the overall SREP, which led to a number of recommendations addressed to CAs in general and addressed to the EBA. The Chair of the Ad Hoc Peer Review Committee also clarified that the recommendations set out in the report were mainly around implementing some good observed practices in particular in view of some of the general difficulties faced. In parallel, the report also sets out a number of recommendations addressed to the EBA to be considered in the next update of the EBA Guidelines on ICT risk assessment under the SREP. She concluded by saying that in accordance with the Peer Review Methodology, the EBA would need to prepare a follow up report focusing on the implementation of the recommendations two years after the publication of the peer review report.
38. The BoS did not raise any comments.

39. The Chairperson concluded by noting the BoS's broad support and said that the final report, after being endorsed by the Ad Hoc Peer Review Committee, would be submitted to the BoS in written procedure for approval.

Agenda item 7: Own Funds: Updated report on TLAC-MREL instruments monitoring

40. The Chairperson reminded the BoS of the 1st TLAC/MREL report published in October 2020.
41. The EBA Head of Liquidity, Leverage, Loss Absorbency and Capital Unit (LILLAC) continued by recalling EBA's mandate in Article 80(1) CRR, according to which the EBA shall monitor the quality of own funds and eligible liabilities instruments issued by institutions across the Union and shall notify the Commission immediately where there is significant evidence that those instruments do not meet the respective eligibility criteria set out in this Regulation. Based on this mandate, the EBA published a first report in October 2020 using the contractual documentation of a sample of senior non-preferred (SNP) issuances and some senior holding company issuances. Since the last report, EBA analysed 25 transactions issued in 16 jurisdictions for a total amount of approximately EUR 15.3 billion using a sample of senior non-preferred (SNP) issuances, senior holding company issuances and senior preferred (SP) MREL eligible liabilities. While developing this report, the EBA has sought to ensure consistency, when appropriate, across instruments with similar loss absorbency features. With respect to the 1st report, the tabled report (i) contained fewer new recommendations as the issuances were standardised, partly due to the actual implementation of the EBA recommendations from the 1st report, (ii) new parts have been added on make-whole clauses (to be disallowed), clean up calls (to be allowed) and substitution and variation clauses (prior approval needed in certain circumstances), (iii) netting & set-off waivers and dual governing law / bail-in sections have been updated and (iv) recommendations on ESG instruments have been removed since the EBA observed that Green EL issuances meet the EBA recommendations and prospectus have been smoothly amended by banks. The Head of LILLAC concluded by stressing that the EBA's reports were usually scrutinised and smoothly implemented by market participants and banks when updating their issuing programmes and corresponding issuances.
42. The BoS supported the work. One Member raised a legal issue related to paragraph 57 of the report, in particular with regard to the sentence: "EBA believes that labelling SNP as 'unsubordinated' could be misleading". The concern is related to the interaction between the message given by the report and their national framework and stressed the impact of the report on national legal provisions.
43. In her reply, the Head of LILLAC clarified the aim of the report which was to provide clarity to the market participants rather than a legal view. In addition, the Legal Unit confirmed the absence of legal issues related to the paragraph in question.
44. The Chairperson concluded by noting the BoS' support and said that the legal issue raised by one Member would be monitored by the EBA.

Conclusion

45. The BoS approved the publication of the Updated report on TLAC-MREL instruments monitoring.

Agenda item 8: Interest rate risk in the banking book

46. The Chairperson introduced the item by noting that the tabled item included two regulatory technical standards and one guidelines which should be consider as one package.
47. The Head of LILLAC stressed the high technical complexity of the topic and said that the products offer a good balance between prudent approaches with proportionality principles and EU specificities that aim to avoid unintended consequences particularly in the current environment of changing interest rates. Publication of these standards now in the current context of interest rates would provide regulatory certainty upon which banks could develop their modelling and strategies. She also mentioned that the monitoring of the implementation of these regulatory developments in the context of a general IRRBB monitoring in the current environment was of a special importance.
48. The BoS supported the work. One Member questioned the granularity of the package which could result in increased complexity of the Single Rulebook. Another Member was of the view that i)proportionality was not properly addressed and ii) that the SA and s-SA wre too complex for small and medium-sized banks. This undue complexity was not consistent with the Level 1 text which made available for smaller banks truly simplified approaches. The same Member noted that under the SA and s-SA the estimation of some parameters was still needed and this could impose significant costs for major enhancements in the current tools used by these banks. Therefore, there was a clear risk of discouraging the voluntary adoption of SA and s-SA models by banks. These enhancements would not automatically lead to direct benefits in terms of accuracy and prudent results as these latter i) were still dependent on the banks' calculations and ii) the increased complexity was not per se a guarantee of prudent results. The same Member suggested i) to put more emphasis in the technical standards on the supervisory dialogue and on the assessment of materiality; ii) to admit the possibility for banks to implement their simplified models in line with their national frameworks; iii)to ask the EBA ACP to provide its assessment of the proportionality of the package. Several Members highlighted the importance of the close monitoring of controversial elements. A number of Members asked for a subsequent written procedure after the BoS meeting in order to send their drafting suggestions. Other Members stressed that the drafting was a compromise which should remain unchanged and asked for the publication without further delays.
49. The EC representative encouraged the Members to support the compromise text and its publication and also stressed the importance of the close monitoring.

50. The Chairperson concluded by noting the BoS's support and asked the Members to send their drafting suggestion while observing the compromise reached by 16 September 2022. The EBA would then send the final package to the BoS for approval in written procedure.

Agenda item 9: Report on the 1st mandatory Basel III monitoring exercise, as of December 2021 and internal annex on the assessment of the proposed EU specific amendments to Basel III

51. The Chairperson reminded the Members of the written procedure held on the Report on the 1st mandatory Basel III monitoring exercise and its Annex for internal use held in July 2022. He noted that in addition, the EBA has tabled the second Annex covering the analysis of the EU specific adjustments for discussion and subsequent written comments after the BoS conference call.
52. The EBA Head of Economic Analysis and Impact Assessment Unit (EAIA) briefly summarised the main findings of the Report and noted that although the point-in-time analysis, based on a sample of 160 banks, was not directly comparable to the previous years, the time series analysis, based on a consistent sample of 86 banks, showed that the impact of Basel III implementation was assessed to be somewhat higher compared to the previous year. This was attributed mostly to the market risk data that – for the reasons of more widespread reporting -- showed a considerably higher impact compared to last year. He mentioned two main changes compared to previous Basel exercises – market risk impact and leverage ratio impact. There was a significant increase in the market risk impact as of December 2021 due to the fact that some banks which did not use to report market risk data, i.e. those for which MR impact was zero, started reporting data in December 2021, showing a positive MR impact and that the majority of G-SIIs reported MR data which indicated higher MR impact than previous years. With regard to the analysis of the proposed EU specific adjustments to the Basel III agreement, the Head of EAIA explained that it provided an assessment of the impact of the Basel III framework including EU specific adjustments which were part of either the current CRD 4-CRR 2 framework or the EC's CRR3 proposal. The purpose of this assessment was to better understand the impact of these specificities relative to the impact of the implementation of the pure Basel III reform.
53. The BoS supported the work. While the majority of the Members agreed with a publication of the annex on the analysis of the proposed EU specific adjustments to the Basel III agreement, they suggested to publish only aggregated and not country specific data, mentioning data quality and confidentiality issues. Some Members preferred the publication of this annex as a separate chapter of the Report. Other Members, referring mainly to the data quality issue, did not support the publication of the annex.
54. The ECB Banking Supervision representative supported the publication of the annex on the analysis of the proposed EU specific adjustments to the Basel III agreement.

55. The EC representative welcomed the analysis, in particular given that it complemented the EC's analysis but highlighted the international aspect and impact of the publication, specially on the ongoing legislative process. He also asked whether the report could be re-arranged in order to emphasise the impacts of individual policy measures.
56. In his response, the Head of EAIA clarified that given the ongoing legislative procedure, the EBA was considering whether the publication would be beneficial and noted that due to challenging timelines, the EBA was aware of some data quality issues.
57. The Chairperson concluded by noting the BoS's support and agreed that the impacts of individual proposals could be emphasized and as result, the EBA would re-arrange the Report. He asked the BoS to send their drafting suggestions by 16 September 2022. He also noted that the annex on the analysis of the proposed EU specific adjustments to the Basel III agreement would be published as part of the Report.

Agenda item 10: EBA response to a Call for advice on EU dependency on non-EU banks and on funding in foreign currencies

58. The Chairperson introduced the item by informing the Members that in summer of 2021, the EC addressed a letter to the EBA to request a study on the dependence of EU financial system on non-EU financial operators and on the dependence of EU banks on funding in foreign currency. The legal deadline for the report was set for 30 June 2022, but the EBA agreed with the EC to postpone it until the end of September 2022 in order to gain some additional time for further data checks.
59. The Head of EAIA summarised the main findings of the report. He said that the first part of the report focused on the role of non-EU entities in the EU banking sector. With data as of June 2021, 360 banks controlled by non-EU entities operated in the EU. This compared to the total number of 3,688 credit institutions operating in the EU-27. The EU market share of those non-EU branches and subsidiaries was 12.2% of total assets. The second part of the report focused on EU banks' funding structure and their reliance on significant foreign currencies for funding. Results showed that many EU banks fund at least some of their assets in a different currency than the one in which the assets are denominated, thus creating a risk of currency mismatch in the overall LCR and NSFR metrics. Overall, EU banks' had on average 19% of their total funding denominated in significant foreign currencies. He continued by saying that the EBA's analysis also showed that EU banks typically rely on non-EU providers for payment services, clearing and settlement services and custody activities. Some 60% of the respondents received payment services from non-EU operators (this includes credit, debit and other cards for which 46% of the respondents indicated having obtained such services from non-EU operators). 59% of the respondents obtained clearing and settlement services and 55% received custody services from non-EU operators. Similar results were found for most EU Member States individually, with only few exemptions.

60. The BoS supported the work. One Member suggested minor drafting changes in the Executive Summary in order to highlight the role of the EU within the global financial market. Another Member asked for clarification on their national data and funding.
61. The EC representative proposed to further highlight that any dependencies were also vulnerabilities and to clearly distinguish between intra-EU and EU and other countries issues.
62. The ESRB representative welcomed the findings of the report, in particular related to assets in various currencies.
63. The Chairperson concluded by noting the support of the BoS and asked for written comments by 20 September 2022.

Agenda item 11: AOB

64. The Chairperson reminded the BoS that the next BoS meeting on 18 and 19 October 2022 was planned as a physical meeting at the EBA premises and that the Joint BoS/BSG meeting was scheduled to take place on 19 October 2022, also at the EBA premises.

Participants of the Board of Supervisors' conference call 14 Septmeber 2022¹

Chairperson: Jose Manuel Campa

Country	<u>Voting Member/High-Level Alternate</u>	<u>National/Central Bank</u>
1. Austria	Michael Hysek	Karin Turner-Hrdlicka
2. Belgium	Jo Swyngedouw/Kurt Van Raemdonck	
3. Bulgaria	Stoyan Manolov	
4. Croatia	Sanja Petrinic Turkovic	
5. Cyprus	Constantinos Trikoupis	
6. Czech Republic	Zuzana Silberova	
7. Denmark	Jesper Berg/Thomas Worm Andersen	
8. Estonia	Andres Kurgpold	
9. Finland	Marco Myller	Katja Taipalus
10. France	Emmanuelle Assouan	
11. Germany	Raimund Röseler/Peter Lutz	Karlheinz Walch
12. Greece	Heather Gibson/Kyriaki Flesiopoulou	
13. Hungary	Csaba Kandracs	
14. Ireland	Gerry Cross	
15. Italy	Andrea Pilati	
16. Latvia	Santa Purgaile/Ludmila Vojevoda	
17. Lithuania	Renata Bagdonienė	
18. Luxembourg	Nele Mayer	Christian Friedrich
19. Malta	David Eacott	Oliver Bonello
20. Netherlands	Maarten Gelderman/Sandra Wesseling	
21. Poland	Kamil Liberadzki	Olga Szczepańska
22. Portugal	Luis Costa Ferreira	
23. Romania	Catalin Davidescu	
24. Slovakia	Linda Simkovicova	
25. Slovenia	Primoz Dolenc/Damjana Igljic	
26. Spain	Angel Estrada/Agustín Pérez Gasco	
27. Sweden	Karin Lundberg	

<u>EFTA Countries</u>	<u>Member</u>	
1. Iceland	Unnur Gunnarsdottir, Gisli Ottarsson	
2. Liechtenstein	Markus Meier	
3. Norway	Ann Viljugrein	Sindre Weme

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

<u>Other Non-voting Members</u>	<u>Representative</u>
1. ECB/SSM	Steafan Walter, Carmelo Salles
2. European Commission	Almoro Rubin de Cervin
3. EIOPA	Kai Kosik

¹ Luca Serafini (Banca d'Italia); Lucy Mansergh, Fionnuala Carolan (Central Bank of Ireland); Nina Rajtar (KNF); Pascal Hartmann (FMA); Marek Sokol (CNB); Jurrriaan Paans (DNB); Liga Kleinberga (FKTK); Iris Taleb (SRB); David Baldachchino (MFSa); Anna Maciejewska-Dymel (NBP); Jose Rosas (Banco de Portugal); Matthias Hagen (OENB)

- 4. ESMA Tomas Borovsky
- 5. EFTA Surveillance Authority Marta Margret Runarsdottir
- 6. ESRB

EBA

Executive Director	Francois-Louis Michaud
Director of Economic and Risk Analysis Department	Jacob Gyntelberg
Director of Prudential Regulation and Supervisory Policy Department	Isabelle Vaillant
Director of Innovation, Conduct and Consumers Department	Marilyn Pikaro
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Heads of Unit

Philippe Allard; Angel Monzon; Jonathan Overett Somnier; Olli Castren; Delphine Reymondon

EBA experts

Tea Eger; Lot Anne; Guy Haas

For the Board of Supervisors

Done at Paris on 18 October 2022

[signed]

José Manuel Campa

EBA Chairperson