EBA BS 2023 535
Board of Supervisors
27 June 2023
Location: teleconference

Board of Supervisors 27 June 2023 – 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 welcomed Mr Kristian Vie Madsen as a new BoS Voting Member representing Denmark, Mr Per Nordkvist as a new BoS Voting Member representing Sweden and Ms Björk Sigurgísladóttir as a new BoS Member representing Iceland.

3. The Chairperson thanked Jo Swyngedouw whose second term as the EBA Vice-Chairperson was due to expire at the end of June for all his work and input.

4. The Chairperson asked the BoS whether there were any comments on the draft agenda. There were no comments on the agenda.

5. Finally, the Chairperson reminded the BoS that the Minutes of the BoS meeting on 19 April 2023 were approved by the BoS in a written procedure.

Conclusion

6. The BoS approved the agenda of the meeting by consensus.

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

7. The Chairperson updated the Members on four items.

8. Firstly, the Chairperson informed that the EU has been negotiating an Association Agreement with the Microstates: Andorra, San Marino, and Monaco. Member States in the Council have set the objective to reach a deal by the end of this year. The Agreement would grant the Microstates the 4 freedoms, including access to the EU Single Market in financial services. The European Commission (EC) has been working on arrangements to ensure that access to the Single Market in financial services was subject to checks and safeguards. The EC has shared a first outline of the arrangements with the ESAs and asked for their views. On 22 June 2023, the ESAs Chairs sent a joint letter to DG FISMA outlining a number of concerns, namely a threat to the integrity of the Single Market due to the historically less rigorous financial regulation and potential regulatory arbitrage and higher risks of money laundering. The ESAs supported the agreement but asked for strong checks, safeguards and appropriate resources to be put in place.

9. Secondly, the Chairperson informed that on 23 June 2023, the EC sent to the EBA a data request to assist the EC in the co-legislation process on the Crisis Management and Deposit Insurance (CMDI) proposals. The data request asked the EBA for three deliverables – 1) interim results of the data extraction of targeted aggregated data on deposits by bank size bands, by maturity and by counterparty, which was held by the EBA as part of its resolution planning process to inform the discussion concerning the currently proposed changes to the creditor hierarchy, due by 5 July 2023, 2) interim results of the data collection of targeted data on deposits, to be collected from the deposit guarantee schemes (DGSs) based on the information in the Single Customer view files, that DGSs collect as part of meeting the requirements outlined in the EBA Guidelines on the stress testing of DGSs. This data will inform the discussion concerning the adequacy of the current coverage level of EUR 100,000, and was due by 27 September 2023, and 3) final response to the request on the two aspects outlined, by end of 2023. To deliver that first part of the request, EBA would extract and aggregate the data to respect the confidentiality requirements, according to which data can be disclosed only when reported by at least three reporting institutions in each bucket for which information was requested.

10. Thirdly, the Chairperson updated the BoS on the mediation case between the Spanish and Belgian DGS and said that the Mediation Panel met with the two DGS. The European Commission also shared their view on the interpretation of the regulation during the Mediation Panel meeting as well. The Panel has agreed its preferred solution to the disagreement and a draft decision has been shared with the two DGS for their input. According to the planning, a decision to the BoS would be presented by the middle of July. He also thanked the Panel members and EC for their input.

11. Fourthly, the Chairperson reminded the BoS of the EBA Strategy Day planned for 10 and 11 July 2023 in Malaga, Spain.

12. The Executive Director updated on three items.

13. Firstly, the Executive Director updated on his external engagements. He attended two FSC meetings where he reported on EBA's risk assessments and presented ESA's progress report on greenwashing and EBA's thematic review on the transparency and level of fees and charges for retail banking products. He also attended the BCBS meeting where first lessons learned from the recent banking crises episodes where one of the key topics.

14. Secondly, the Executive Director informed about the liaison between the EBA and the taskforce set up by the European Commission (EC) in the context of the preparations for AMLA.

15. Thirdly, the Executive Director referred to the first draft conclusions received from an audit on EBA's HR management and ethics. He highlighted that no findings on EBA's handling of Ethics matters had been raised by external auditors which testifies to the effort carried out by the EBA in this area since the beginning of 2021. He also noted that the auditors noted the efforts undertaken since the Summer 2022 to develop a comprehensive EBA HR strategy and flagged some further improvements on the HR procedures given that the rolling out of this strategy is still underway.

16. The Members did not raise any comments.

Agenda item 3: Election of the EBA Vice-Chairperson and Members of the Management Board

17. The Chairperson reminded BoS Members that following the resignation of a Management Board (MB) Member, the EBA has launched calls for candidates to fill the vacant position. He also explained that the second non-renewable term of the EBA Vice-Chairperson was due to expire on 30 June 2023 and that the EBA had launched a call for candidates for this position as well. For both positions, the EBA has received nominations and was presenting to the BoS the next steps to finalise the elections for these positions.

18. The EBA Head of Governance and External Affairs Unit (GEA) continued by briefly summarising the applicable provisions of the EBA Regulation and the BoS Rules of Procedure for such elections. He also mentioned that there was an inconsistency in the Rules of Procedures on the period for submission of nominations for the position of the Vice-Chairperson and for the members of the MB. In order to align the procedures, the EBA proposed to review all its Rules of Procedures with regard to the elections and align a requirement for 10 calendar days for submission of nominations for all types of elections together with providing more flexibility in relation to the use of written procedure for conducting such elections, in accordance with the updated operating modes for holding meetings where in-presence meetings are not systematic. Finally, he underlined that according to the EBA Regulation, the EBA Vice-Chairperson is invited to attend the MB meetings and acts as alternate to the chair but is not a MB member. Since the only candidate who applied for this position was currently a member of the MB, he would have to step down from his position to take up the Vice-Chairperson role. As result, there would be another vacant position in the MB and the EBA was proposing to launch a call for candidates to address this situation should it be confirmed once the Vice-

Chairperson vote is finalised. The Head of GEA concluded by explaining that due to time limitations, not all deadlines were observed before the BoS conference call and therefore, the EBA was proposing to hold the elections for the Vice-Chairperson and MB positions in writing after the BoS conference call.

19. The Chairperson reminded the Members of the composition of the MB as per the EBA Regulation which specifically referred to the need for a gender balanced representation together with at least two representatives of non-participating Member States in the Banking Union.

20. The Members did not raise any comments.

21. The Chairperson concluded by noting the BoS support for the suggested next steps for these elections and the update of the Rules of Procedures.

Conclusion

22. The BoS agreed with the launch of the election of the EBA Vice-Chairperson after the BoS conference call and in writing by consensus.

23. The BoS agreed, by consensus, that if the candidate who applied for the Vice-Chairperson position was elected as the EBA Vice-Chairperson, the EBA would launch another call for candidates for the Management Board and would also launch an election of two Management Board members in writing.

24. The BoS supported alignment of the deadlines for the submission of nominations of candidates in the various EBA Rules of Procedures to 10 calendar days and to provide for elections in written procedure by consensus.

Agenda item 4: Joint ESA high-level exercise on ICT third party providers

25. The Chairperson introduced the item by informing the Members that the ESAs have conducted a joint-ESAs high-level exercise to better understand the ICT third-party service providers' (TPPs) landscape across the entire EU financial sector in light of the DORA oversight framework. The results of this exercise aimed to support the ESAs and competent authorities (CAs) in the development of DORA policy instruments and preparing for the upcoming oversight tasks under DORA.

26. The EBA Director of Innovation, Conduct and Consumers Department (ICC) reminded the BoS of the discussion at the June 2022 BoS conference call during which the EBA informed about DORA preparatory activity which involved a data collection from a sample of financial entities on their ICT third-party arrangements (on a best-effort basis) and subsequent analysis to identify relationships between ICT TPPs (directly and indirectly via subcontractors),

concentration risk associated to large providers and potential critical providers. This was the first time the ESAs have performed an exercise of this type/scale.

27. The EBA Policy expert summarised the key findings of the tabled report and noted that some of the data and findings identified in the report (section 2: key takeaways to consider when drafting related technical standards and section 5: modelling the criticality criteria) have already been taken into account by the ESAs when developing the Discussion paper on the Call for advice on the criticality criteria and oversight fees published on 26 May 2023 and the Consultation paper on the DORA ITS on the register of information published on 16 June 2023.

28. The Members welcomed the analysis and report and noted that the key findings were similar to their national observations. Majority of the Members were of the view that a sanitized version of the report could be published but all data would have to be anonymized given their sensitivity and rapid market developments. Some Members preferred to keep the report as an internal working document stressing that the aim of the exercise was to prepare the ESAs and the CAs for their new oversight/supervisory roles and that the sample was not comprising all relevant institutions. One Member pointed out that the timing of the publication of the report would be well aligned with the publication of the first set of DORA-related consultation papers and stressed that both the CAs and market participants were mainly interested in how the ESAs were planning to take over the oversight work.

29. The Chairperson concluded by noting the BoS's support for the work but also mixed views regarding the publication of the report summarizing the findings of the analysis. He reminded the BoS that the BoSs of the other ESAs were planning to discuss the findings as well and based on their feedback, the ESAs would approach their respective BoS with a proposal regarding the publication of the report via written procedure. He also noted that the main goal of the exercise was to prepare for necessary future work and therefore, the ESAs had to be practical and pragmatic in their next steps.

Agenda item 5: Supervisory independence – common principles

30. The Chairperson introduced the item by reminding the Members that in the last EC Report on the operation of the ESAs of 23 May 22, the ESAs were encouraged to make further progress in their new task of monitoring and fostering supervisory independence by drawing up cross-sectoral criteria for supervisory independence in the EU. The ESAs could then assess the extent to which the criteria were met, thus going beyond the self-assessments of CAs that had been carried out so far. EBA staff have been working in close cooperation with ESMA and EIOPA staff on the development of the criteria, carrying out several internal consultations and reconciliation exercises of the comments received at the three ESAs' internal structures.

31. The EBA Head of Legal and Compliance Unit (LC) continued by referring to the ESAs Review which introduced a new task from January 2020 for the ESAs to foster and monitor CAs supervisory independence (Art. 8(1)(b) of EBA Reg). This new task was in addition to the existing requirement to assess the degree of independence of the CAs in the peer reviews that

the EBA conducts. In 2021, the ESAs published their reports on the independence of CAs and in December 2022, the ESAs agreed to draft joint ESAs criteria on the independence of supervisory authorities using EIOPA's criteria as a basis. The aim was to put in place common criteria relevant for all supervisors which were based on existing international and European standards and which could then be used at EU level for future joint assessments. He clarified that the criteria were principle and outcome-based, neither too detailed nor too high level, admitting that there may be different ways of implementing them at national or Union level. They could be useful tool for CAs to support their independence vis-a-vis national governments/legislators, and were not conceived to be a pinpointing exercise, but more as principle-based objectives on which the ESAs will always be supportive to assist CAs during their implementation. The Head of LC concluded by noting that as to the legal nature of the criteria, they were a single set of non-binding ESAs criteria that would be used by the ESAs to jointly assess supervisory independence in the Union. With regard to next steps, he mentioned that, following the discussion in the 3 ESAs respective BoSs, a revised draft will be presented to the Joint Committee and then for written approval to the respective ESAs' BoSs.

32. The views of the Members were mixed. While several Members explicitly supported the work, many other Members raised concerns on the nature of the principles and the potential consequences of their assessment as well as made specific comments on some provisions. They said that the principles should clearly state that they were not binding, should not be considered more than good practices and that not all provisions could be implemented due to national legislation. One Member questioned a need for a separate set of criteria from current international standards (Basel). Other Members asked for a shorter, simplified and potentially only a staff document. Some Members referred to the CRD6 and its independence requirements and questioned whether it would not be premature to approve the tabled common criteria given that L1 already envisaged a mandate for the EBA in this regard They also mentioned the independence regime of central banks and said that some provisions, such as in paragraph 38 with regard to the right to be heard, were beyond the requirements already established for the central banks in the EU. One Member noted that the right to be heard principle could not be extensively applied to all situations previous to the issuance of the decision of the authority. A few Members commented on paragraph 53 (cooling off periods) and asked for introducing an appropriate compensation mechanism. Several Members referred to requirements for members of governing bodies and said that requirements such as thorough knowledge of financial sector or of English might be further considered in order to be more flexible. One member found that proposed requirements to publish e.g. decisions and consultation materials in English language was unrelated to independence, indicating that this should not be part of the common principles. Two Members questioned whether, according to paragraph 33d), a publication of salaries should not be regulated by national law rather than by these principles. With regard to paragraph 44, one Member said that the close relationship should be clearly defined as there was a natural exchange of views between supervisors and market participants. Other Member noted that the CAs should be accountable only to national parliaments and not their governments. Two Members noted that there were different national regimes on autonomy and staffing of central banks and that in some

Member States, central banks did not have full autonomy. One Member also mentioned that division of responsibilities for prudential supervision was differently organized in various Member States and suggested that the criteria should be drafted as principle based. One member mentioned that CAs in some cases have other tasks than prudential supervision where independence of the same nature and degree is not warranted – it could therefore be considered to limit the scope of the common principles to the exercise of supervision under the legal acts explicitly listed in ESA regulations. Another Member pointed at the fact that in their case, the government was responsible for the governance of the authorities and administrative legislation and therefore, there is a need for clarification to whom the principles are addressed. On the scope of application of the Criteria one Member asked the EBA to clarify, as it is done in the draft CRD VI, that the Principles and their provisions apply only to staff involved in and to governing bodies vested with supervisory powers and activities. Some referred to the expected CRD6 text which also mentions compensation. One member found the proposed principle of autonomy in setting wages and working conditions to be formulated in quite absolute terms at odds with the reality of public bodies – "sufficient" autonomy would be better.

33. The EC representative updated the Members on the latest provisional agreement on CRD6. He welcomed the proposed qualitative criteria and also referred to the mandate for the EBA as set out in the CRD6. With regard to paragraph 38, he asked for flexibility for the CAs with regard to the dismissal.

34. The ESRB representative commented on paragraph 38 supporting its text and warning about potential political inference.

35. In his reply, the Head of LC clarified that the CRD6 was applicable to the banking sector only as well as being much more prescriptive. He added that the tabled criteria are not a mere checklist and should be applied by CAs using their judgement and that CAs should ensure that they have appropriate criteria in place. Moreover, he explained that the English related criteria were introduced from the point of view of the principle of transparency and that financial services are highly globalized and English was the prominent language for communication in the industry.

36. The Chairperson concluded by noting the comments raised by the Members and said that the other ESAs were also planning to discuss the common criteria with their BoSs. The ESAs would reflect on this discussion when finalizing the drafting of the common criteria.

Agenda item 6: Risks and vulnerabilities in the EU

37. The EBA Head of Risk Analysis and Stress Testing Unit (RAST) updated the BoS on the latest developments in the EU related to risks and vulnerabilities. Global GDP growth was expected to remain subdued in 2024 albeit slightly above 2023 levels. Emerging market economies contribution to global growth has increased over the last 20 years. While inflation remained persistent, there were indications of easing inflationary pressures in the EU and elsewhere.

During the first quarter of 2023 EU banks reported high profitability and capital ratios. This was due to the increase in the net interest income (mainly due to the margins) and to low credit losses. Based on Risk Assessment Questionnaire (RAQ) the percentage of banks that expect an increase in lending volumes is falling. Around 1/5 of banks indicated their intention to decrease RRE exposures. An increasing share of banks expected a deterioration in asset quality when compared to previous surveys. However, banks did not expect a substantial increase in provisions. 90% of banks had provision overlays in place, driven by macroeconomic factors and the Russian aggression against Ukraine. The responses from banks as part of the RAQ indicated banks' plans to replace maturing TLTRO funding mainly by using current liquidity holdings (>50% of RAQ respondents) or issuing covered bonds (23%). The Head of RAST concluded by saying that banks resumed first primary markets activity in April, which also included lower rated banks and issuances of T2 and AT1 instruments. Finally, he mentioned the EBA analysis showed that deposit in/outflows remained stable in the EA, for instance. However, there have been moves from sight to term deposits. Banks have kept low levels remuneration of their deposits.

38. A presentation by the Swedish BoS Alternate Member followed on the commercial real estate (CRE) market in Sweden. The Member noted that many CRE firms needed to reduce their debt through a combination of amortisation using operating cash flow, asset liquidation and equity rights issues. He also said that the probability of higher credit losses in the banking system, as well as overall financial stability risks, has increased. To address this, they have introduced measures to strengthen banks' resilience.

39. Members provided an update on national developments including loan growth dynamics, deposit pricing and CRE asset quality concerns. Some Members noted that there was a decline in new loans due to the monetary policy tightening, not driven by supply-side restrictions. In many countries loan growth has been slowing down, while in a few countries there has been a decrease in outstanding loans. With regards to CREs the outlook was mixed. One Member said that their market had limited CRE exposure compared to residential real estate, therefore CRE was not of particular concern. Other Members shared this view. However, some Members were more concerned, in particular with regard to CRE exposures in the US; in one jurisdiction, CRE loans account for around 10% of institutions' assets, even for smaller ones. One Member stressed that the EBA and CAs should continue closely monitoring the CRE market developments, considering that in the broad macroeconomic outlook. One Member mentioned that their banks have had record profits due to the high share of variable interest rates loans in its jurisdiction. Several Members commented on deposit repricing and mentioned potential national legislative initiatives in this regard, as well as mounting political pressure for banks to increase deposit rates. There also seemed wide dispersion among member states in respect of the remuneration of deposits. Potential reasons for such divergence were discussed. Members did not raise concerns on liquidity outlook in their jurisdictions and some noted that even after repaying TLTRO, excess liquidity would remain ample. One Member suggested that the impact of rising interest rates has not yet unraveled through banks' balance sheets. A few Members cautioned that there should be no

complacency and supervisors should remain vigilant as there was elevated macroeconomic and geopolitical uncertainty.

40. The SRB representative concurred with the message that the funding market has nearly normalised, but argued that some banks still have MREL shortfalls. Small and mid-sized banks have more difficulties due to structural features such as, less frequent issuances, lack of reference curve, small nominal amounts of the ticket and limited analysts coverage. She mentioned that the SRB has been monitoring the market closely given that the general six months of the end of the transition period for MREL would expire soon.

41. The ECB Banking Supervision representative raised his concerns related to the inflation, high interest rates, highly vulnerable sectors and sectoral risks. He noted risks considered by the US counterparts after the recent market developments and mentioned that banks should maximise their communication ability to react to changes on the market.

42. In his response, the Head of RAST mentioned that the EBA was planning to further analyse evolution of deposit prices in the EU.

43. The Chairperson concluded by noting the comments by the Members and agreed that the EBA had to remain vigilant and closely monitor the market developments.

Agenda item 7: Mission statement and values of the EBA

44. The Chairperson introduced the item by referring to the EBA's long-term tasks and acknowledging the staff's input in the preparation of the tabled statement.

45. The Executive Director continued by noting that after its first decade of existence the EBA has experienced structural changes over the last years that required a reaffirmation of its values, mission statement and culture, which would warrant internal and external communication. The 2022 Staff Engagement Survey and the outcome of the Staff Focus Group also indicated that the staff would welcome additional attention in the area of values and culture. In autumn 2022, once the management team had been completed, the EBA launched an initiative about Values and mission statement and in spring 2023, after EBA wide survey, several staff and management team discussions, the EBA Values and mission statement was finalized.

46. The EBA Director of Innovation, Conduct and Consumers Department (ICC) continued by summarising internal steps in developing the statement and highlighted that the EBA's mission was to contribute to the stability and effectiveness of the European financial system through consistent, transparent, simple and fair regulation and supervision to the benefit of EU citizens. The EBA's Values included "Excellence in everything we do"; "Trust in our relationships"; "Creativity to deal with challenges"; "Service as a mindset", and "Collaboration is our approach".

47. The Members welcomed the initiative and the involvement of the staff in the preparation of the mission statement. Some Members proposed to include values related to independence

and public interests arguing that these have often been motivations for experts to work in the central bank's and regulatory/supervisory environment. One Member questioned whether the value of service would not be considered more as an internal value rather than a value toward external stakeholders. Other Member suggested including a reference to consumer interest. One Member questioned whether the other ESAs have been involved in the drafting of the mission statement. Finally, one Member questioned drafting of the value on excellence in everything the EBA did, as it may be perceived as overpromising.

48. In his response, the Executive Director clarified that following the MB's discussion, the EBA had repositioned an initial reference about consumer protection in the mission statement as a reference to EU citizens generally as the ultimate beneficiaries of the efforts to foster pursue financial stability. On the independence, he noted that reference to transparent regulation and supervision also covered aspects of independence and public interest, but the value of service could also be relabelled into public service which is the underlying notion.

49. The Chairperson concluded by noting the Members' support.

Agenda item 8 – 2023 EU-wide Stress test – A) Ad-hoc data collection on bond portfolios

50. The Chairperson introduced the item by informing that there were two main topics to discuss under the 2023 EU-wide Stress test item. The first one was the ad-hoc data collection on debt securities. He reminded the Members that at the beginning of April, the BoS agreed to launch an ad-hoc data collection to allow an enhanced assessment of the impact of losses on EU banks' bond holdings in addition to what it has already been done in the EU-wide stress test. The Chairperson reminded the BoS that back in April, the BoS did not decide on how to communicate the results of this ad-hoc effort. Hence the EBA was in addition to tabling the main findings from the collected data, proposing a possible forward on how to communicate the results.

51. The EBA Director of Economic and Risk Analysis Department (ERA) updated the BoS on the overall 2023 EU-wide stress test. He said that the EBA has received already two submissions and that as in the past stress test, they have been subject to data quality checks and quality assurance. The Director also indicated that additional changes were expected in the 3rd submission. He also mentioned that the EBA had already conducted two rounds of QA calls with the CAs.

52. The EBA Bank Sector Analyst continued by introducing the methodology used in the ad-hoc data collection referring to two types of analysis, one to estimate the unrealised losses as of December 2023 and February 2023, and another one to estimate the unrealised losses under an adverse scenario. The data collected covered bond holdings of EUR 2.06 trillion. Derivatives subject to fair value hedge accounting were also considered to analyse hedging dynamics but without considering macro hedges or natural hedges (e.g., offsetting effects from banks' liabilities). He stressed that the results had been double checked with CAs and banks. The main

findings where summarised. It was explained that the unrealised losses on amortised cost bond holdings by the banks participating in the Stress test, as of February 2023, amounted to EUR 70 bn.

53. With regard to the disclosure of the results, it was proposed to disclose unrealised losses at individual bank level for all participating banks together with the 2023 EU-wide Stress publication at the end of July. Communication would include the carrying amount and fair value of amortise cost bonds for two reference dates (December 2022 and February 2023) for each participating bank. Additional information at the aggregate level would be provided either in a dedicated box of the EU-wide stress test report or in a section of the report. The EBA would also prepare a communication highlighting the different nature of this exercise and the EU-wide stress test exercise, and how to interpret the results of the ad-hod data collection.

54. The Members welcomed the work. On the communication many BoS members stressed while they favoured publication, the disclosure of this information should be done in a manner which reduced the risk of a direct link being made with the 2023 EU-wide Stress test. This common view reflected a concern that the result of the ad-hoc collection could be wrongly interpreted by some as being part of the stress test exercise. One Member proposed to highlight in the communication that similar data collection would be done on a regular basis. On the granularity of the published results, some Members preferred disclosure on the individual bank basis, others preferred aggregated data disclosure. A few Members also raised doubts on the publication of the results from the adverse scenario analysis.

55. After the discussion, the Chairperson proposed that Members approve a communication in which the EBA would proceed with disclosing aggregate and individual banks' results for all participating banks, the latter in the absence of any objection by these banks; such communication would make clear that the publication of these results was only performed for transparency purposes, and that neither the hypothetical unrealised losses related to the difference between carrying amounts and fair values of bonds at amortised costs nor estimated additional losses from the adverse market risk scenario should not be linked to the results of the EU-wide stress test.

56. The Members approved the proposal by majority.

Conclusion

57. The BoS approved the publication of the aggregated and individual bank results of the ad-hoc data collection on bond portfolios by majority.

Agenda item 8 – 2023 EU-wide Stress test – B) One-off Fit-for-55 climate risk scenario analysis

58. The Chairperson introduced the second item under the 2023 EU-wide Stress test. He clarified that the one-off Fit-for-55 climate risk scenario analysis was one of the new mandates for the

EBA coming from the Renewed Sustainable Finance Strategy of the EC. It required coordination between ESAs, ECB and the ESRB. He reminded the Members of the discussion during the BoS conference call in September 2022, during which the BoS agreed to approach this task in an efficient and pragmatic way, relying as much as possible on existing synergies.

59. The EBA Bank Sector Analyst continued by informing the Members that on 8 March 2023, the final mandate for the exercise was received by the EBA from the EC. The One-off was expected to be launched during July 2023, with publication of results envisaged by Q1 2025. As a first step, the exercise required each ESA, with the support of the ECB if needed, to produce sector-specific results, based on three scenarios. One baseline and two adverse scenarios generated by the ESRB. These results would then be used by the ECB to produce cross-sectoral results and to model second round effects. He noted that to deal with the organisational and the technical aspects of the exercise, an Expert group was created, composed by climate risk stress test experts from the ESAs, the ECB, the SSM, the ESRB and the EC. The Expert group was currently discussing some of the main features of the climate scenarios. The scenarios should be discussed in each of the ESAs BoS before ESRB GB would approve the scenario. As ESAs were required to produce sector-specific results, the EBA has been working in conjunction with the ECB and the SSM to develop the templates for the ad-hoc data collection of the banking sector module, which would be run leveraging on the ECB's models for credit and market risk. The draft templates were aligned as much as possible with the Pillar 3 ESG disclosure (i.e. in terms of NACE sectors covered by the data collection), and with other initiatives from CAs on CRST exercise (i.e. 2022 SSM climate stress test), to reduce as much as possible the burden for the industry.

60. The Members supported the work. One Member questioned whether the templates should include information on hedges. Other Member asked about the scope of the information collected, in particular related to balance sheets and individual bank data. One Member raised concerns on the granularity of the templates for instance regarding the request to provide NACE 4 information. Other Member proposed implementing good practices from the SSM climate stress test noting that data collected for the one-off exercise should not fall behind this standard and another Member noted that the model should address specificities of non-Banking Union Member States. One Member asked for sufficient time for quality assurance part of the analysis.

61. The ESRB representative noted that the relevant stress test task force had to be involved in the analysis.

62. The ECB representative confirmed that the scenario would be further discussed within relevant technical experts group.

63. The EC representative welcomed the EBA's support for this exercise. Regarding the proposed industry consultation and data collection, he mentioned that it would benefit of being accompanied by coordinated communication with the market so that there was clarity around the purpose of the exercise and how it fitted with the existing stress testing exercises. The

outreach and overall messaging should be coordinated through the existing EBA/ECB project group, in case it has an impact on the work to be done by the other ESAs.

64. The Chairperson concluded by noting the support by the Members and said that comments on the content of the templates could be made through the STTF.

Agenda item 9: EBA Priorities and Work Programme 2024

65. The Chairperson informed that three sub-items were to be discussed by the Members under the item. The first sub-item on the EBA priorities set out a proposal for addressing the EBA priorities in a more comprehensive manner. The approach would cover the programming documents that the EBA has been preparing on a regular basis, and allow for a more systematic and integrated approach, including for the Union strategic supervisory priorities and the peer review work plan. Second sub-item referred to 2024 EBA Work programme and in this regard, a letter of recommendations of the EBA's Advisory Committee on Proportionality (ACP) has been tabled as a third sub-item.

66. The Executive Director continued by noting that the EBA has reviewed its approach to priorities and was aiming at presenting a comprehensive set of priorities twice a year, when preparing the single programming document and work programme. This new approach would allow the EBA to comply with its legal requirements whilst supporting the completion of its strategic objectives. He explained that the discussion on the EBA priorities for the work programme Y+1 usually took place at the May MB and was used as the starting point for the preparation of the draft work programme which was presented for comments at the June BoS and submitted to MB/BoS final approval in September. This discussion on EBA work programme priorities overlapped with other exchanges on EBA priorities which were developed in parallel. In order to bring more consistency to those priorities and how they interact with each other, the EBA's proposal was to present all EBA priorities to the MB/BoS twice year, as part of the preparation of the EBA SPD Y+2 (November to January cycle) or the EBA work programme Y+1 (May to September cycle), which had legal deadlines (end January and end September respectively). He clarified that the tabled document set out the EBA's updated proposal for the 2024 EBA work programme's priorities as well as a new cycle of Union Strategic Supervisory Priorities (USSP), but also a peer review workplan. For this first implementation the approach has not yet been fully implemented: USSP have been presented slightly later than was foreseen under the new approach, whereas the proposals for the upcoming European supervisory and resolution examination programmes were to be finalised in due course. The Executive Director then introduced the proposal on the Union Strategic Supervisory priorities (USSP) which consisted in 1) Monitoring the impact of increased interest rates on the EU banking sector, using all regulatory and supervisory tools available such as the SREP or the IRRBB framework and 2) Setting up new supervisory functions for TPPs and crypto-assets activities have been identified by the EBA as two priorities for 2023 – 2025.

67. The Members welcomed the proposal for simplification of the procedure for setting up the EBA priorities. On the USSP, one Member was of the view that the monitoring dimension (of

priority 1) might be too static and suggested to add also a dimension of response to any issues identified. He was also of the view that the priority 1 could be wider to cover broader economic circumstances and should not focus on interest rates only. Another Member supported priority 2 but enquired whether the intention was indeed to first focus on MICA-related aspects. He suggested to allow for some flexibility for CAs to adjust the USSP priorities further to reflect their national circumstances. One member suggested in the ESEP 2024 to replace a focus on recovery planning with a focus on asset quality and credit risks.

68. The ESRB representative proposed to add to USSP priority 1 also focus on liquidity risks and interaction between interest rates and liquidity.

69. In his reply, the Executive Director agreed that the USSP priority 1 could be defined more widely and cover not only monitoring but addressing the risks, if needed.

70. The Executive Director then proceeded to introduce the draft 2024 work programme and referred first to adjustments made to the priorities approved as part of the Single Programming Document (SPD) in January, which were made to address recent concerns related to weaknesses in the global financial system following the March 2023 financial markets turmoil, global macroeconomic outlook; geopolitical risks and inflation. He also presented the peer review work plan 2024 – 25 and clarified that this workplan should be approved by the BoS as part of the 2024 Work programme. In the section covering the activities, objectives have been added to address a recommendation from the EC's Internal Audit service. He concluded his presentation on the 2024 Work programme by explaining some of the pressure points and challenges the EBA is facing in delivering, in particular referring to resources constraints, the high number of mandates in CCR3/CRD6 but also the measures adopted by the EBA to mitigate the challenges. These included - reconsidering approaches, focusing attention on politically important / high impact mandates, deprioritisation / deferral of tasks and resources related measures.

71. The EBA Director of Data Analytics, Reporting and Transparency Department (DART) as a co-chairperson of the Advisory Committee on Proportionality (ACP), presented the recommendations of the ACP on the 2024 Work programme related to credit risk, reporting and transparency, stress testing and regulatory impact assessment.

72. The Members supported the work. With regard to the peer review work plan, some Members raised concerns regarding the proposed CumEx peer review given that this issue was relevant for a limited number of CAs, or that it was not clear which benchmark to review practices against. One Member suggested to begin with the peer reviews on SREP and liquidity already in the second half of 2024 rather than in 2025. Other reviews put forward for prioritisation included the resilience of deposit guarantee schemes. On resources, one Member mentioned that a proposal of outsourcing to consultants might have to be further considered, as they see little scope for delegating core tasks, which are the reason for resource constraints, to external parties, and another Member acknowledged the resources issue that the EBA has been facing and said that some resources could be reallocated from other projects, such as from integrated

reporting tasks. He also questioned whether the proposed work on further use of SNCI classification of institutions in the ACP advice would necessarily provide the desired benefits in terms of proportionality across policy areas. Reflecting on the ACP's recommendations, one member highlighted that there was room for improvements in terms of proportionality and that even the credit risk standardized approach was still too complex for small institutions.

73. The Executive Director noted that comments would be taken into consideration when reviewing the document, in particular as regards the peer review work plan. He also noted that outsourcing was only one of the options the EBA was considering and while not viable for core tasks might provide some relief for preparatory work.

74. The Director of DART clarified that the ACP recommendation aimed to ensure consistent classification of the institutions by the CAs.

75. The Chairperson concluded by noting the BoS's comments, support for the work and with regard to the Work programme, support for the mitigating actions presented, indicating that there would be a final review round for the Work programme in September.

Conclusion

76. The BoS approved by consensus the proposal on developing EBA priorities.

77. The BoS approved by consensus the Union Strategic Supervisory priorities for 2023 – 2025.

Agenda item 10: RTS on IMMV and accompanying opinion

78. The Chairperson introduced the item, noting that since the adoption of the amendments to EMIR ("EMIR Refit" - 28 May 2019), EBA had the mandate to complement the RTS, jointly developed by the ESAs, concerning the exchange of margins for non-centrally cleared OTC derivatives. The mandate was known as the Initial Margin Model Validation mandate, or IMMV.

79. The EBA Director of Prudential Regulation and Supervisory Policy Department (PRSP) continued by mentioning that at the end of 2021, the RTS IMMV was published, with consultation ending in February 2022. The RTS generated a lot of feedback, and the EBA finalised the review in March 2023. At the same time as its finalisation, the EBA decided to draft an EBA Opinion on IMMV in order to solve a coordination issue linked to the industry-wide adoption of the IM Model, such as SIMM (Standardised Initial Margin Model), that could not be fully addressed within the current legal mandate of the RTS IMMV. As part of the consultation feedback, the EBA addressed two main concerns raised during the public consultation – 1) backtesting requirements, and 2) burden for simplified counterparties. With regard to the Opinion, the Director of PRSP clarified that the Opinion on the centralised scope of IM validation was built toward the EU-centralised approach for SIMM validation as a solution for SIMM general validation. Furthermore, it elaborated on the EMIR proposal to remove the RTS IMMV mandate.

80. The Members supported the work, but some Members expressed some concerns with respect to the scope of the central validation.

81. The EC representative welcomed the work and the EBA's guidance to the co-legislators on the issues raised in the tabled Opinion. He noted that while the co-legislators might be supportive of the EBA's role with respect to the SIMM validation, but there might be concerns regarding any additional resources.

82. The Chairperson concluded by noting the BoS's support.

Conclusion

83. The BoS approved the final draft RTS on Initial Margin Model Validation by consensus.

84. The BoS approved the Opinion on regulatory scope and validation of IMMV by consensus.

Agenda item 11: AOB

85. The EC representative updated the Members on the provisional agreement between the co-legislators on the CRD/CRR package transposing Basel III requirements to the EU legal framework. He acknowledged that COREPER would have to approve the proposal in the coming days and summarised the main outstanding points on which the co-legislators reached the agreement, in particular relating to output floor, 3rd country banks and fit and proper arrangements. He concluded by noting that the implementation of the package was planned for 2025 and that a number of technical trialogues would be needed in the coming weeks.

86. The Members did not raise any comments.

Participants of the Board of Supervisors' meeting on 27 June 2023[1]

Chairperson: Jose Manuel Campa

Country	Voting Member/High-Level Alternate	National/Central Bank
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	Thomas W Andersen	Morten Rasmussen
8. Estonia	Andres Kurgpold	Timo Kosenko
9. Finland	Marko Myller	Katja Taipalus
10. France	Nathalie Aufauvre/Francois Haas	
11. Germany	Raimund Roeseler	Karlheinz Walch
12. Greece	Heather Gibson/Kyriaki Flesiopoulou	
13. Hungary	Csaba Kandracs/Laszlo Vastag	
14. Ireland	Gerry Cross	
15. Italy	Andrea Pilati	
16. Latvia	Kristine Cernaja-Mezmale/Ludmila Vojevoda	
17. Lithuania	Simonas Krepsta/Renata Bagdoniene	
18. Luxembourg	Claude Wampach	Christian Friedrich
19. Malta	Christopher Buttigieg/Anabel Armeni Cauchi	Oliver Bonello
20. Netherlands	Willemieke van Gorkum	
21. Poland	Kamil Liberadzki	Olga Szczepanska
22. Portugal	Rui Pinto/Jose Rosas	
23. Romania	Catalin Davidescu	
24. Slovakia	Linda Simkovicova	
25. Slovenia	Damjana Iglic	
26. Spain	Angel Estrada/Agustin Perez Gasco	
27. Sweden	Magnus Eriksson	David Forsman

EFTA Countries	Member	
1. Iceland	Bjork Sigurgísladóttir	
2. Liechtenstein	Markus Meier	
3. Norway	Morten Baltzersen	Sindre Weme

Observer	Representative
1. SRB	Nadege Jassaud, Kristian Kjeldsen

Other Non-voting Members	Representative
1. ECB/SSM	Carmelo Salleo, Stefan Walter
2. European Commission	Martin Merlin, Stan Maes

[1] Pascal Hartmann (FMA); Markus Schwaiger (OENB); Marco Giornetti (Banca d'Italia); John Kane, Morgan Allen (Central Bank of Ireland); Pawel Gasiorowski (NPP); Marek Sokol (CNB); Annemijn van Rheden (DNB); Christian Elbers (BaFin); Ivan Carl Saliba (MFSA); Francesco Pennesi, Hanno Stremmel (SRB); Jennie Bergman, Frida Alvarsson (Finansinspektionen)

3.	EIOPA	
4.	ESMA	Tomas Borovsky
5.	EFTA Surveillance Authority	Marta Margret Runarsdottir
6.	ESRB	Tuomas Peltonen

<u>EBA</u>

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	Marilin Pikaro
Director of Data Analytics, Reporting and Transparency Department	Meri Rimmanen

EBA Heads of Unit

Philippe Allard
Angel Monzon
Lars Overby
Jonathan Overett-Somnier

EBA experts

Tea Eger
Guy Haas
Raffaele Passaro
Ester Botica Alonso

For the Board of Supervisors

Done at Paris on 11 August 2023

[signed]

José Manuel Campa

EBA Chairperson