



EBA BS 2020 175 rev. 1

Board of Supervisors

11 March 2020/15:00-17:00

Location: Paris, teleconference

EBA-Regular Use

Board of Supervisors meeting – Final Minutes

Agenda item 1: Declaration of conflict of interest

1. The Chairperson welcomed the Members. He clarified that the purpose of the teleconference was to discuss and address possible impact of COVID 19 on EU banks and to present a range of actions to address current developments. In this regard, he thanked the BoS for their input on the summary of business continuity plans requirements implemented at national level.
2. The Chairperson welcomed a new BoS Voting Member from Spain, Mr Angel Estrada, who has replaced Jesus Saurina.
3. None of the BoS Members declared any conflict of interest.

Agenda item 2: Recent market developments, Summary of banks contingency plans operationalisation and CAs measures, and Possible actions for mitigating the impact of COVID 19 on EU banks

4. The Chairperson highlighted that operational resiliency was the top priority of banks. Therefore, the BoS should explore options to release banks from non-essential supervisory requests.
 5. The EBA Director of the Economic Analysis and Statistics Department (EAS) briefly summarised the situation of the markets. He noted that, despite the sharp falls in equity prices and the freeze of funding markets, no material business disruptions have been observed so far. Nonetheless, he acknowledged some strain on USD liquidity. He also thanked the BoS for their input on the national contingency plans.
 6. He then moved to the illustration of possible actions for mitigating the impact of the crisis on banks. He started mentioning the importance of keeping the existing classification criteria for NPEs, defaults and forborne exposures, since it was crucial to have an accurate and timely recognition of the deterioration of asset quality. On the other hand, he also pointed at the
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flexibility embedded in those definitions. He also stressed that there is flexibility in Pillar 2 measures linked to asset quality, such as the prudential provisioning, and in the EBA NPL management guidelines. Furthermore, the Director of EAS summarised additional options to address the impact of Covid-19, such as the release of the CCyB and the temporary breach of other capital buffers (with the subsequent MDA triggering) and the LCR, which was a buffer intended to be used in times of stress. Likewise, the P2G requirement could be reduced or banks might be given more time if they were not able to meet supervisory capital expectations. Given that the new CRD5 clarified that it was possible meeting P2R with capital instruments different from CET1, he also reminded that this was a possibility for supervisors. He continued by highlighting the importance of guaranteeing the free movement of liquidity across borders and mentioned the possibility of allowing small delays on banks' supervisory reporting.

7. On the 2020 EU-wide stress Test, the Director of EAS mentioned the importance of this exercise, particularly in crisis times, for understanding banks' vulnerabilities and informing market participants. He also mentioned that the adverse scenario remained severe and relevant. However, in order to address competent authorities (CAs) and banks' operational challenges, he suggested three possibilities: maintaining the current timeline but simplifying the quality assurance process, delaying them by about 3 months in order to give more time to banks (publication end-October 2019) or postponing it to 2021. Finally, he referred to a statement drafted by the EBA and its potential publication on 12 March.
8. Given the various issues to be discussed, the Chairperson asked the BoS to provide feedback on the three main aspects: market developments and actions by the CAs; stress test, and the list of measures to be taken and how to communicate them.
9. On the market developments and actions by the CAs, one Member updated on the national developments. The ECB Banking Supervision representative informed about increasing number of cybercrime activities taking advantage of the situation caused by Covid-19. He also mentioned the ECB swap lines should address current situation and help to avoid major USD liquidity disruptions.
10. On the stress test, the ECB Banking Supervision representative expressed a strong preference for delaying the exercise by 12 months. He explained that tools to be used under a simplified QA approach (i.e. the supervisory leg which was part of the discussed concepts for the long term changes in the stress test have not been developed yet and therefore the approach described as 'Option 1' could not be implemented. With regard to the adverse scenario, while current economic and financial data were still better than in the adverse scenario, some indications (e.g. oil price drop) suggested that scenario parameters may be outdated by the end of the exercise. In addition, the difference between the base and adverse case would significantly contract and as such the adverse scenario would be less credible. Finally, he pointed out several operational risks, such as big teams working together in large open space (raising the danger of the transfer of e.g. a virus), team members regularly travelling, shortage of national experts involved in the exercise, leakages and cyber risk.

11. A majority of the Members indicated mainly operational constraints from both supervisors and banks and the possibility that the conditions of the adverse scenario could be at some point surpassed by the reality. Some Members supported the delay for one year and others mentioned that the EBA could review the decision after three or six months based on the market developments. The Members insisted on the importance of the communication of the final decision to avoid adverse market reactions and agreed on the importance of carrying out a transparency exercise and sensitivity analysis instead.
12. Given various preferences, the Chairperson cast a vote. The vast majority of the Members supported the postponement to 2021. They also agreed that the communication should be carefully drafted and focused on operational aspects of the delay. They highlighted that the message to delay the stress test exercise should not imply that the EBA was expecting that the crisis will last for a year.
13. On the measures to be taken and their communication, the discussion focused on the draft statement, in particular on the paragraph about NPL provisioning expectations. It was suggested to drop parts of the paragraph and to say that there shall be a close dialogue between banks and supervisors.. Some Members also asked for some more leeway in the recognition on NPL and FBE or the stage moves under IFRS 9, whereas the majority rejected such ideas. One Member suggested to include a paragraph on the need to contain capital distributions. Other Member questioned postponement of MREL requirements as institutions might struggle to issue eligible bonds in the near to mid-term future. Regarding the communication of the measures to be taken, some Members asked to put less emphasis in the press statement on specific measures, as this might give the market the idea that these measures were already necessary, and to place more emphasis on the availability of flexibility in general. Finally regarding reporting, some Members stressed that the key parts of Finrep and Corep should not be delayed, as this was paramount for their supervisory work.
14. The ESRB representative acknowledged the cross reference to their work and informed that the ESRB Steering committee was planning to meet during the following week.
15. The EC representative proposed to clarify communication between the CAs and to refer, in the statement, to retail and SME clients who might benefit from the measures.
16. The Chairperson concluded that the EBA would redraft the statement based on the discussion and asked BoS for comments until 10:00 next day.

Conclusions

17. The BoS agreed to postpone the stress test exercise to 2021. The stress test would be replaced by an additional EU-wide transparency exercise in July with extra data on the most affected sectors and, possibly, an aggregate sensitivity analysis.
18. The BoS agreed that the EBA would publish the statement on Thursday 12 March.

Participants of the Board of Supervisors' conference call

11 March 2020, Paris

Chairperson: Jose Manuel Campa

<u>Country</u>	<u>Voting Member/High-Level Alternate</u> ¹	<u>National/Central Bank</u>
1. Austria	Helmut Ettl	
2. Belgium	Jo Swyngedouw	
3. Bulgaria	Stoyan Manolov	
4. Croatia	Martina Drvar	
5. Cyprus	Stelios Georgakis	
6. Czech Republic	Zuzana Silberová/Marcela Gronychová	
7. Denmark	Thomas W. Andersen	Peter E. Storgaard
8. Estonia	Andres Kurgpold	Timo Kosenko
9. Finland	Anneli Tuominen/Jyri Helenius	
10. France	Emmanuelle Assouan	
11. Germany	Peter Lutz	Erich Loeper
12. Greece	Spyridoula Papagiannidou	
13. Hungary	Gergely Gabler	
14. Ireland	Gerry Cross	
15. Italy	Andrea Pilati	
16. Latvia	Santa Purgaile/Ludmila Vojevoda	
17. Lithuania	Marius Jurgilas	
18. Luxembourg	Christiane Campill	Christian Friedrich
19. Malta	Pierre Paul Gauci	Oliver Bonello
20. Netherlands	Maarten Gelderman/Sandra Wesseling	
21. Poland	Artur Ratasiewicz	
22. Portugal	Ana Paula Serra	
23. Romania		
24. Slovakia	Vladimir Dvoracek	
25. Slovenia	Damjana Iglic	
26. Spain	Alberto Rios	
27. Sweden	Bjorn Bargholtz	Camilla Ferenius

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

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

<u>Other Non-voting Members</u>	<u>Representative</u>
1. ECB/SSM	Korbinian Ibel
2. European Commission	Nathalie Berger
3. EIOPA	Patrick Hoedjes, Kai Kosik
4. ESMA	Roxana De Carvalho
5. EFTA Surveillance Authority	
6. ESRB	Toumas Peltonen

EBA Staff

Acting Executive Director, Director of Operations	Peter Mihalik
Director of Economic Analysis and Statistics	Mario Quagliariello
Director of Banking Markets, Innovation and Consumers	Piers Haben

Angel Monzon, Lars Overby, Delphine Reymondon, Merio Rimannen, Jonathan Overett Somnier, Olli Castren, Philip Allard,

Tea Eger; Dragan Crnogorac; Juan Garcia, Marina Cernov; Andreas Pfeil

For the Board of Supervisors

Done at Paris on 14 April 2020

[signed]

José Manuel Campa

EBA Chairperson