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Board of Supervisors
25 June 2024
Location: teleconference

Board of Supervisors

Minutes of the conference call on 25 June 2024

Agenda item 1: Welcome and approval of the agenda

1. The Chairperson welcomed the Members of the Board of Supervisors (BoS). He reminded them 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 Ms Karen Braun-Munzinger as a new SRB representative.

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

4. Finally, the Chairperson reminded the BoS that the Minutes of the BoS conference call on 23 April 2024 were approved by the BoS in a written procedure.

Conclusion

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

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 noted that in line with the MiCAR implementation plans, all 18 EBA mandates with a deadline of June 2024 have been completed and, where relevant, submitted to the European Commission (EC). He thanked the Members and experts at the national level for all their contributions to the drafting of these mandates. He then reminded the Members of the transition phase statement for ARTs/EMTs setting out expectations and guiding principles for issuers and other relevant persons published by the EBA in July 2023. In view of the coming into application of the MiCAR regime for issuers, offers, and persons

seeking admission to trading of ARTs and EMTs from 30 June 2024, the EBA prepared a new draft EBA statement aiming at highlighting the coming into application of the new regime. The statement would be sent to the BoS in written procedure for their approval. The Chairperson also mentioned that the EBA was required to establish a new Crypto-Assets Standing Committee (CASC) as of 1 January 2025 to support the preparation of EBA decisions relating to its supervisory tasks. In preparation for this, the Crypto supervision coordination group would be transitioned to the CASC and respective documents, such as the mandate, would be submitted for the BoS approval in Q3 2024. Under DORA, The Chairperson noted that the last three technical standards would be submitted to the BoS shortly after the conference call. In this regard, he mentioned that the EC has indicated that they may consider rejecting the DORA ITS on the register of information (part of the first batch published in January) so that an alternative independent EU identifier was used for third-party providers, namely the EUID. Implementing EUID would introduce implementation challenges to financial entities, competent authorities (CAs), and the ESAs. Ultimately, it may also have an impact on the timeline for CTPP designation currently foreseen in early H2 2025, which the EBA would reassess later this year with the results of the dry-run exercise. In addition, the EC also expressed some concerns in relation to the RTS on subcontracting (part of the second batch) where they expressed concerns on the monitoring by financial entities of the full sub-contracting chain. He concluded by saying that the mandate of the Joint Committee's subcommittee on DORA has been extended to 2025 to help with establishment and functioning of the DORA Oversight Forum.

8. Secondly, the Chairperson announced that an International Conference on Supervisory Cooperation jointly organised by the ECB and the EBA was scheduled to take place on 03 and 04 September 2024 in Frankfurt and it would explore the multiple dimensions of supervisory cooperation and the key challenges for which cooperation amongst supervisors across borders and sectors was essential. The save the date would be circulated in the coming days.

9. Thirdly, the Chairperson informed the Members that the Risk Dashboard and the Risk Assessment Questinnaire were published in June and that since this edition, these publications would be accompanied by a new interactive data visualisation tool publicly available on the EBA website.

10. The Executive Director updated the Members on two items.

11. Firstly, the Executive Director referred to a number of meetings during which he presented and updated on the EBA work, in particular mentioning the FSC, the Basel Committee and EU-UK dialogue where were presented the EBA's work on risks, securitisation, implementation of the Banking package. He also mentioned an FSC's request to contribute to work related to a capital markets union. Secondly, the Executive Director informed about several organisational aspects related to the EBA. He updated the Members on the ongoing selection procedure for two directors' positions – for the EBA's Economic Risk and Analysis Department and for the joint ESAs department responsible for DORA oversight (which had

attracted a very high number of applications) - as well as preparatory works for the set-up of the joint oversight venture. Finally, from an organisation's point of view he mentioned that i) the EBA offices would undergo a refurbishment during the summer period to enhance the authority's collaborative and sustainable way of working and prepare for additional staff to be recruited for DORA and MiCAR tasks, and ii) the annual reclassification process was almost completed and would allow to reward a fair amount of staff members in full alignment with staff regulations rules and recommended practices, and achieving gender balance.

12. One Member asked if excel files related to the Risk Dashboard could be downloaded from the EBA website and the Chairperson confirmed that under the new interactive tool, there was such an option.

Agenda item 3: Impact of Commission delegated act on postponement of FRTB – potential EBA actions

13. The EBA Chairperson introduced the item by noting that the CRR3 envisaged the implementation of the FRTB for capital purposes from 1 January 2025 together with all the other elements included in the final Basel III standards. However, the EC has, earlier this month, announced the postponement of the FRTB by 1 year. In response to the postponement, the EBA has identified a number of areas which require EBA action, and these were tabled for the BoS discussion.

14. The EC representative acknowledged the importance of wide and consistent application of Basel standards and said that for the FRTB in particular the aim was to achieve application by all jurisdictions at the same time. He noted that implementation processes related to the application of Basel III regime in the US and UK were expected to be delayed until January 2026 at the earlies. The EC is empowered to issue a delegated up that could postpone the application of the FRTB in the EU for up to two years. Co-legislators – European Parliament and the Council – have a three-months period during which they could reject such proposals from the EC. The EC was aiming at an early adoption of its proposal to delay the FRTB, in the context of the political transitions following the recent EP elections. He concluded by stressing the good cooperation and communication with the EBA on the matter and a need for coordinating any communication messages to the wide public.

15. The EBA Head of Risk-based Metrics Unit (RBM) continued by noting that the EBA has recently finalised its market risk roadmap and was ready to progress the work on the FRTB. In this regard, he noted that the FRTB-related reporting requirements have been already implemented in the EU. He then continued by summarising four main areas in which the EBA's action would be required following the postponement of the FRTB: FRTB boundary; reporting and disclosure; benchmarking, and stress testing. In addition, he noted that clarification on the functioning of the output floor may be needed. On FRTB boundary, the proposal on the table was to issue, without further delays after the adoption of the

delegated act postponing the FRTB, a no-action letter aligning the application date of the trading book boundary. With regards to the output floor, he stressed the importance of coordinating communication with the EC on clarifying that banks should use Basel 2 – IMA and FRTB – SA for the output floor calculation during the postponement period. The Head of RBM said that the delay in FRTB application would also impact reporting but clarified that rather than updating relevant ITSs, guidance on a few aspects (e.g. requesting institutions to submit figures reflecting the output floor calculation) could likely be given through Q&As. He also said that if the EC considered postponing the application date (or postpone the adoption) of ITS-granular reporting, the EBA would also have to modify the application date of the ITS on the FRTB boundary reporting in light of the postponement of the FRTB, which was for the moment foreseen to be September 2025 and this would have to be communicated clearly to institutions. Similarly, the EBA and the EC would have to coordinate communication to ensure that disclosure requirements were clear to institutions following the adoption of the delegated act. With regards to benchmarking exercise, the Head of RBM explained that it would be more consistent to keep running the exercise as it was in 2024 (existing IMA banks reporting old IMA and FRTB-SA figures). This indeed would mean keeping 2024 conditions unchanged also for 2025, consistently with what was proposed in other areas and with no extra burden. However, he also acknowledged that the benefit of running the exercise remained linked to its timing and an alternative could be to interrupt the benchmarking exercise for 1 year, and get the 2026 package ready, in which more than 100 institutions would be involved. Finally, on the stress testing, the Head of RBM said that the EBA was proposing to proceed with consultation with the Market Risk REA methodology based on CRR2 requirements, i.e., using the 2023 Stress test MR REA methodology.

16. The Members supported the EBA's proposals. One Member highlighted significant consequences of the decision on the postponement of the FRTB. Other Member asked the EBA to develop a list of all CRR3 Articles that would be impacted by the postponement. On the boundary, some Members asked for further analysis of pros and cons of the tabled proposal considering the main objective of avoiding regulatory arbitrage. They also mentioned that, in their view, arguments from the past were not relevant given that many institutions have already prepared for legislative changes. With regards to the output floor, one Member questioned consistency between Basel 2 – IMA and FRTB – SA for the output floor calculation and the new delayed requirements. Other Member asked for clarification on the use of the standardised approach (SA) by banks and its continuation. One Member noted that banks have already implemented reporting requirements and therefore, he noted that the EC could consider providing optionality to implement the FRTB-SA already today. With regards to the benchmarking exercise, one Member supported its continuation with a caveat that the sample of banks in the exercise should be reduced. Some Members asked for consideration of the overall usefulness of the exercise given that current framework would not exist under future legislation and asked for suspension of the exercise for one year, although noting that FRTB-SA benchmarking could possibly continue. One

Member supported the suspension of the exercise but asked for continuation of the exercise for models under current legislative framework.

17. The ECB Banking Supervision representative expressed their preference for coherent approach under which all specifications would be included in the delegated act but also supported the EBA's no-action letter to address boundary and output floor issues. He also supported continuation of the benchmarking exercise.

18. In his response, the EC representative clarified that the one-year delay in the application of the FRTB aimed at avoiding challenges in case of different applications of the respective legislative framework by various institutions.

19. The Head of RBM acknowledged a need for further technical discussions on the tabled proposals.

20. The Chairperson concluded by noting the Members' comments and said that the EBA would further discuss with the EC and at the experts' level the technicalities of the tabled proposals.

Agenda Item 4: 2025 EU-wide stress test exercise

21. The Chairperson introduced the item by outlining three main topics for discussion – discussion on the methodology, sample and timeline of the 2025 EU-wide stress test; narrative of the adverse scenario for the exercise; and the proposed way forward for building fundamentals for future top-down models for stress test.

22. The EBA Head of Risk Analysis and Stress Testing Unit (RAST) continued by noting that the BoS was asked to agree on the proposed sample of banks for the exercise and clarified that the sample included 65 banks, of which 51 from the euro area and covered broadly 75% of the banking sector in the euro area, each non-euro area EU27 Member States and Norway. He explained that while considering potential acquisitions of some banks, the BoS has been asked to decide how many additional banks should be preliminarily included as buffer banks in the 2025 sample to cover potential changes to the sample before the start of the exercise. For that matter, the EBA suggested adding eight banks to cover the drop in the coverage if the two banks involved in the potential acquisition were excluded, while the ECB/SSM exceptionally requested a waiver from the EBA to allow a coverage slightly below 75% for the 2025 stress test, because of the uncertainty of the materialisation of the aforementioned acquisition. On the timeline, the Head of RAST summarised the changes to the execution milestones: launch, submissions, FAQ process and publication. He said that the EBA was proposing to allow an earlier start of the stress test and to postpone the first submission by around two weeks which would give banks additional time to provide their projections due to the introduction of the CRR 3. The publication of the stress test results was planned for the end of July 2025. He concluded by explaining the main changes to the stress test methodology referring to the centralisation of NII pass-through calculation and application of the CRR3 for the projections of capital requirements,

including the implementation of the output floor. He also mentioned the delay of the FRTB implementation in the EU and said that for the treatment of MR REA (excluding CVA), the proposal was to revert to the methodology used during the 2023 EU-wide stress test exercise which was in line with CRR2.

23. The Members supported the tabled proposals. On the sample, majority of the Members agreed with granting a waiver to the sample coverage and adding three banks as provisionally included. With regards to the timeline, several Members supported the EBA's proposal. One Member questioned if the postponement of the first submission would impact the quality assurance process. On the methodology, some Members agreed with the EBA's proposal to revert to the 2023 methodology for market risk capital requirements to address the FRTB delay and stressed the importance of detailed communication in this regard.

24. The EC representative noted that the proposed approach to cater for the postponement of the FRTB with a 3-year use of the current treatments (as mentioned above) might be interpreted as a contradiction to the EC's one-year delay and therefore stressed the importance of clear communication of this aspect.

25. The ECB Banking Supervision representative welcomed the EBA's considerations of the waiver for the sample.

26. In his response, the Head of RAST explained that all stress test exercises were based on the regulation and accounting standards applicable at the beginning of the exercise and a static balance sheet and therefore, the exercise would not convey any future change to the legal framework. Regarding the quality assurance, he clarified that the timeline for this process has been adjusted to reflect postponement of the first submission from the banks and allow an earlier start of the FAQ process. He added that while the EBA usually communicated only on the start and end dates of the exercise, it would consider how to provide further details on the timeline.

27. The Chair of the ESRB Task Force on Stress Testing presented proposals for the narrative for the adverse scenario of the 2025 EU-wide stress test. He highlighted several aspects that have been considered – exacerbated geopolitical tensions, further shocks to commodity prices; lower inflation; macroeconomic deterioration and debt sustainability. He said that at the experts' level, six building block for the scenario have been identified – banking sector facing low profitability, higher credit risk, worsening of funding conditions; financial conditions showing volatility, tightening and liquidity concerns; indebtedness raising public and private sustainability concerns; real estate, in particular deterioration observed on the commercial real estate market; divergent global developments and low EU growth, and finally, geopolitical risks and political uncertainty.

28. The Members welcomed the discussion on the narrative of the scenario. They agreed to continue with technical discussions on the narrative after the summer months given the

political developments. While some Members supported inclusion of geopolitical risks in the narrative, they also raised concerns about potentially similar scenario as in the 2023 EBA stress test exercise with low interest rates and low inflation aspects. One Member questioned whether aspects that had micro-effect, such as sanctions, should be considered for the narrative. The views were mixed on the inclusion of cyber risks as these could be considered as operational risks events and should be covered in other types of exercises.

29. The ECB representative stressed the need to finalise the narrative and the scenario by the end of September when it should reflect current political, legislative and market situation.

30. The Chairperson expressed a view that the geopolitical risks should be reflected in the sectoral scenario by having different shock magnitudes across sectors and countries.

31. In his response, the Chair of the ESRB Task Force on Stress Testing noted the need for calibration at some point of time and informed that the ECB has been analysing geopolitical risks from various angles and these would be presented in separate reports.

32. The Head of RAST continued by presenting a summary of previous BoS discussions on top-down models, a description of the EBA proposal centred on a collaborative platform to be used for data collection, joint model development with ECB and CAs, a cost-benefit assessment of the proposal, and a timeline with estimation of resources to be committed to this project.

33. The Members welcomed the discussion on the top-down models. They appreciated that the EBA collected during the last four years knowledge and know-how on how top-down aspects could be implemented in the stress test exercises. Many Members expressed support for building a collaborative platform suggested by the EBA that would enable a better coordination of all stakeholders for future data collections and model developments. Some Members highlighted that top-down models should not be aimed at replacing all bottom-up projections but rather co-exist and complement each other. The Members supported the proposal of allowing the developed top-down models to be a public good, available to CAs for use in their stress testing work. Some Members pointed that the initiative should be aiming at also developing models for projections rather than only for challenger models. Few Members raised concerns on additional data collections and stressed the importance of avoiding further reporting burdens. Other Members commented on the timeline and highlighted that the envisaged resources might not be sufficient. Regarding the proposed timeline, mixed views were expressed as some Members would favour applying more top-down models sooner, while other Members found the timeline too ambitious. Several Members asked for more clarity on the role of the EBA, ECB and CAs as well as on the governance, costs, division of work and collaboration. One Member proposed to further reflect on collected knowledge and only then progress the work. Other Member suggested to leverage on existing practices.

34. The ECB representative welcomed the initiative noting that better and more structed data could be collected that would result in building better models. She raised concerns related to the governance, duplications, and resource requirements as a top-down exercise would not necessarily be less resource intensive.

35. The ECB Banking Supervision representative asked for clarity on governance issues and to avoid duplications.

36. The Chairperson concluded by noting the BoS' support for the methodology, timeline, and sample, including the waiver proposed by the ECB/SSM and inclusion of three buffer banks. He noted views that a delay in the submission should not come at the expense of the quality assurance of results. Regarding the communication on the stress test exercise, he highlighted the importance of clarifying that the stress test was a risk identification exercise and not an exercise assessing regulatory risks. He said that the communication on the timeline should include also, at the high level, information on the additional time granted to banks for the submission of data. The Chairperson also concluded that communication should address issues related to the FRTB. On the narrative for the scenario, he welcomed the identified building blocks and questioned whether impacts of geopolitical risks on various sectors should also be considered. The Chairperson noted that based on experience from past exercises, a low interest rates adverse scenario appeared to produce more negative outcomes on banks performance. Finally, on the top-down models, he noted that the progress was slower than anticipated. He noted strong support for the direction of travel and for building a collaborative platform as suggested in the EBA proposal, but there were questions about governance, resources, and duplication but also different views on the timeline. He supported the models to be a public good and applicable for other stress test work. He also requested to take into consideration the reporting burden for any data collection. He said that the EBA would continue working on the topic and update its proposal by the end of 2024. Finally, he mentioned that the 2025 EU-wide stress test package would be sent to the BoS for approval in writing before publishing it for consultation with banks.

Conclusion

37. The BoS agreed by consensus with the sample criteria and the sample of banks, including the granting of waiver proposed by the ECB.

Agenda Item 5: Fit-for-55 (One off) climate scenario analysis

38. The Chairperson reminded the Members of the One-off (Fit-for-55) Climate Scenario Analysis exercise in which the EBA in conjunction with other ESAs and the ECB assessed the financial system's resilience during the transition to the EU's climate targets by 2030 (FF55). He thanked ECB for their support on this exercise and also the ESRB for providing the scenarios and clarified that the presentation tabled at the BoS conference concerned only the results of the banking sector module, which have been developed together by the EBA and the ECB, exploiting existing synergies and tools.

39. The EBA Senior Bank Sector Analyst (Analyst) continued by acknowledging that the EC mandated the European Supervisory Authorities (ESAs) to conduct, together with the ECB and ESRB, a one-off climate scenario analysis exercise to assess the resilience of the financial sector in line with the Fit-for-55 package, while gaining insights into the capacity of the financial system to support the green transition even under conditions of stress. The ESRB Task Force on Stress Testing developed three scenarios (baseline, first and second adverse scenario) based on the high-level narratives outlined in the mandate. The scenarios were approved by the ESRB General Board in December 2023. The Analyst continued by briefly summarising models and methodology used and then presented the results of the analysis. On the main lessons learnt, the Analyst said that the climate stress testing was in its infancy and methodological and data gaps could undermine the robustness of results. Also, comparing results from climate and supervisory stress tests, might not be meaningful, as they were run with different scenarios, scope and tools. The Analyst concluded by listing the next steps and mentioned that the ESAs and the ECB would continue drafting the joint report with an aim to publish the report in November 2024.

40. The Members supported the work. Several Members pointed at the issue of data quality and therefore, a few were of the view that the EBA should not provide country-by-country results to the EC but rather aggregated results. Others did not object sharing of country results with the EC and one Member suggested to include these results in a separate annex which would be available also to CAs. Few Members stressed the importance of accompanying communication which should clarify the importance and size of this exercise, issues related to the data quality as well as include a caveat explaining the aim of the exercise in comparison to other exercises, such as the EU-wide stress test or the ECB climate stress test. The Members supported the presented timeline, and one Member was of the view that during the meeting in October, the BoS should focus on the presentation of the results and their communication to the EC. Two Members raised technical comments. One Member noted that some of the shocks were calibrated using only euro area data and suggested to specify when and where this would apply. Another Member asked clarifications on the magnitude of government bonds losses compared to other asset classes such as corporate bonds or equities. Additionally, he inquired about the link between climate risk and sovereign exposures in the context of this exercise.

41. The ECB representative welcomed the cooperation with the EBA and the other ESAs on this novel project which allowed the ECB to apply their micro/macroeconomic models and to collect valuable input not only for their own climate stress exercise but also for the methodology for this exercise.

42. In his reply, the Analyst clarified that the magnitude of government bonds losses is driven by the higher share of government bonds at fair value over the total market risk exposures in scope of this exercise. He explained that, as the FF55 exercise was mainly focused on transition risk, government bonds losses stem from higher interest rates and credit spreads which resulted from increased government spending to support the transition. This reflected the narrative of the scenarios.

43. The Chairperson concluded by noting the Members' comments and stressed the importance and value of this exercise but also its limitations related primarily to the data quality. He also noted that the majority of the Members supported sharing of the data on a country basis with the EC, sharing them beforehand with NCAs.

Agenda Item 6: Risks and vulnerabilities in the EU

44. 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. He summarised the main Q1 2024 observations and said that profitability remained resilient for EU/EEA banks. Net interest margins further widened, and banks managed to retain their cost base stable. However, going forward the sustainability of the robust profitability levels was one of the issues, in particular as the interest rates presumably reached their peak, and several central banks started with monetary easing. The Head of RAST continued by noting that EU/EEA banks' CET1 ratio remained almost unchanged compared to Q4 2023, liquid assets increased by more than 100bn in Q1 and while the interest rate environment stabilised, banks still reduced their outstanding loans to households and NFCs. With regard to asset quality, the Head of RAST acknowledged that credit risks further materialised in Q1 2024. EU/EEA banks reported a notable NPL increase by EUR 7bn. The increase in NPLs was broad based, yet the biggest increase was reported for SME segment. Cost of risk of EU/EEA banks was also reported higher. On operational risk, he said that risk of fraud has become the third most relevant driver of operational risk in the EBA Risk Assessment Questionnaire (RAQ). Cyber risks and data security rank the highest among operational risks and there were indications that cyber-attacks have been on the rise, including successful ones, and that their sophistication has been increasing. Funding showed some wobbles very recently, after having performed well until May. They seem to recover now again. He pointed to rising interest in significant risk transfer transactions. He also covered the asset and liability trend going forward, based on EU/EEA banks' funding plan data. The Head of RAST concluded by noting that stakeholders of the banking sector increasingly refer to geopolitical risks which could have an adverse impact on credit, market and operational risk. RAQ results showed that political risks which were only part of geopolitical risks, have been the third most important driver to build provisioning overlays.

45. A presentation by Austrian representatives followed. In his presentation, he focused on the impact of geopolitical risks on the Austrian banking sector and related supervisory actions. He covered the general economic situation in Austria. There has been a significant improvement in lending standards due to borrower-based measures aiming at ensuring affordability of mortgage loans. He also reflected on traditional strong business ties of banks through their subsidiaries in the region and mentioned that total assets of subsidiaries located in non-EU member states have decreased substantially, mainly due to decrease in Russia from 13.3 to 7%. He continued by listing macro- and microprudential measures implemented to limit the effects of geopolitical risks, mentioning strengthening resilience via gradual increase of the combined size of the systemic risk buffer (SyRB) and the O-SII buffer, cautious capital planning, or enhanced AML supervision. He concluded by

mentioning cyber risk threats and analysis conducted by the national supervisors and regulators.

46. In the following discussion, Members provided an update on their national developments. Several Members acknowledged continuous uncertainty, geopolitical risks and fragile environment. One Member referred to recent national political developments and informed that following tests and analysis, they concluded that the impact of recent yield widening on banks' CET1 ratios was marginal and would not have any direct impact on the banking sector. Other Member stressed the importance of raising customer awareness with regard to cyber risk and fraud as well as dedicating resources addressing increased cyber threats. Several other Members mentioned increasing fraud cases and national supervisory responses.

47. The EC representative reflected on the presentation by the Austrian BoS Member, in particular with reference to whether the profits from subsidiaries in Russia can really be considered as profits given the existing restrictions. In his response, the Austrian BoS Member explained that banks report their results both including and excluding Russian businesses.

48. The ECB representative asked for further details on decreased reliance of banks on the central banks' funding. The Head of RAST clarified that limited reliance on central banks' funding was connected to TLTRO repayments and the fact that this type of funding would now be more expensive than other alternatives, e.g. deposit-based funding.

49. The Chairperson concluded by noting the comments by the Members and informed that the EBA has recently finalised its Opinion in which it assessed payment fraud data that has recently become available to the EBA, identified new types and patterns of payment fraud, and developed proposals to mitigate them. This Opinion aimed at further strengthening the forthcoming legislative framework under the Third Payment Services Directive (PSD3) and Payment Services Regulation (PSR).

Agenda Item 7: Peer review – Definition of default

50. The Chairperson introduced the item by clarifying that the tabled findings of the draft Peer Review report on the EBA Guidelines on the application of the definition of default (DoD) have been discussed with the Management Board in May and that as a part of the peer review, the peer review assessed the application of Internal rating based (IRB) as well as Standardised approach (SA).

51. The EBA Head of Legal and Compliance Unit (LC) presented the main findings of the report and noted that the peer review focused on application of the definition of default and the EBA Guidelines across three major areas - Implementation of EBA Guidelines in the supervisory framework; effectiveness of the procedure for the submission of the application; and effectiveness of the assessment for checking the compliance with the definition of default.

52. The Head of RBM continued by noting that the overall conclusion of the peer review was that the Guidelines have been fully or largely incorporated in the supervisory framework by all supervisors reviewed. He added that the effectiveness of supervision was good, in particular as regards monitoring of IRB credit institutions. While some EU IRB banks were under the supervision of a national CAs (in conjunction with the ECB), the majority were under the direct supervision of the ECB. Supervision of the DoD of credit institutions using the SA was also good but more varied, reflecting the more dispersed nature of the credit institutions and the relative predominance of IRB credit institutions in terms of size and assets in different jurisdictions, with some scope for consideration by the CAs of best practices identified in the peer review and of the appropriate level of supervision in order to strengthen it further.

53. The Head of LC concluded by clarifying that after integrating the conclusions of the BoS discussion, the EBA was planning to send the peer review report via written procedure for approval to the BoS and subsequently publish it on the EBA's website.

54. The Members supported the work. One Member raised general concerns related to practices used during the peer review, in particular on-site investigations and noted that within their jurisdiction, the supervisory authority had a power to implement EBA guidelines as a general guidance while considering various aspects. He also noted that they would reflect on any recommendations by the peer review committee, but such considerations may not result in any immediate changes to their supervisory priorities.

55. The Head of RBM explained the rationale behind the on-site investigations, in particular in connection to the implementation of the IRB.

56. The Head of LC noted that the EBA's peer reviews were not based on comparison of various CAs but rather on setting benchmarks for the implementation of the requirements in the EBA Guidelines and its assessment.

57. The Chairperson concluded by noting the support by the Members and pointed at the importance of assessing best practices and real practices and supervisory priorities.

Agenda item 8: EBA Priorities and Work programme 2025 update

58. The Chairperson introduced the item by clarifying that as part of the discussion, the peer review work programme and recommendations by the Advisory Committee on Proportionality (ACP) have also been tabled by the EBA staff.

59. The Executive Director reminded the Members of the new approach adopted by the BoS last June to define the EBA's different priorities in two steps: the cycle started with a first round - with multi-annual priorities, draft annual priorities, and Union Strategic Supervisory Priorities (USSP) - in November/December, in the context of the preparation of the single programming document, and then a second round in May /June in the context of the preparation of the work programme for the following year). In the present step the BoS was

asked to consider in particular the priorities for the 2025 Work programme, the Peer review work plan, and separately under the next agenda point the key topics for the European Supervisory Examination Programme (ESEP). He also mentioned that the recommendations on the 2025 Work programme drafted by the ACP would be further implemented in the next iteration of the Work programme. On the priorities for the 2025 Work programme, he said that the priorities put forward in January as part of the draft SPD remained largely valid with minor adjustments reflecting external developments, such as geopolitical risks, or elections. These aimed at: removing the reference to Basel III and instead focusing on the implementation of the EU Banking Package which also covered other (e.g. ESG) aspects (Priority 1 – Implementing the EU Banking Package and enhancing the Single Rulebook); stressing the need to factor in possible new developments (economic, geopolitical and the impact of the outcome of the EU elections) in the narrative for Priority 2 – Enhancing risk-based financial stability for a sustainable economy; and reflecting the clearer picture with regard to the transition to AMLA for Priority 5 – Developing consumer orientated mandates and ensuring a smooth transition to the new AML/CFT framework. The work programme document per se reflected these adjustments also in the objectives and challenges, in the outputs – which included some placeholders for legislation that has been currently under review but could still affect the workload for 2025 –, and also identified tasks or areas that could be subject to deprioritisation. He referred to the discussion during the Management Board (MB) meeting in May which provided good input on the refinement of the priorities. He concluded the introduction by stressing, as had been done at the May MB, the challenges for 2025 with limited and already stretched resources. Whereas the situation in 2024 was helped by the fact that not all legislative texts were adopted in line with the initial timelines, for 2025 bottlenecks were to be expected. Resources gap, in particular in the areas of credit and market risk related work, had already been identified in the context of the draft SPD, but were not addressed by the institutions. In the areas of MiCAR and DORA work would intensify with the commencement of the oversight and supervisory activities, whereas the transition to AMLA would continue to impact on the relevant team. In addition, it could not be excluded that further, unforeseen requests for input would be received. While the EBA has already been prioritising work and re-deploying staff, it may ask the CAs for additional ad hoc resources to deal with the credit and market risk mandates, and the requirements stemming from the cyber-security regulation. With regards to the Peer review work plan, the Executive Director mentioned that the EBA had previously committed to increase the number of peer reviews to three peer reviews per year, plus three follow-up reviews. While this has been pursued for 2024, in 2025-2026, the team coordinating the peer reviews would also need to embark on work on supervisory independence, including CRD guidelines on supervisory conflicts of interest, and potentially on a joint ESAs exercise following on from the adoption of the 2023 supervisory independence joint criteria and this had to be factored in when preparing the work plan. The proposal was therefore to select one of the topics put forward as options for peer reviews in 2025, namely Supervision of Pillar 3 disclosure. This has been prioritised by the EBA due to policy interest in strengthening disclosures prior to launching the Pillar 3 Data Hub. While ESG aspects in relation to loan origination and monitoring and the Interest rate risk in the banking books have also been considered, it was deemed preferable to review these at a later stage. The Executive Director also mentioned a number of follow-up peer reviews to be launched in 2025. He concluded by offering Members to send their written comments and that the EBA would finalise the Work programme in September, after another round of reviews at both the MB and BoS, before it would be submitted to the EC, EP and the Council.

60. A presentation by the Co-Chairperson of the EBA Advisory Committee on Proportionality (ACP) followed. In his presentation, he reflected on the ACP's previous letters of recommendations on the EBA Work programmes and said that this year's ACP advice followed up on a number of recommendations from previous years, in particular related to reporting and transparency but also reflected on new areas, such as payments and payment fraud. Five activities were identified by the ACP for 2025 - Recovery and Resolution; ESG in supervision and regulation; Payment services, consumer and depositor protection; Reporting and Transparency framework; and Classification of institutions. He summarised the recommendations drafted by the ACP.

61. Commenting Members fully supported the work. One Member suggested considering whether the increased focus on the functioning of EU financial markets and on the capital market union should be reflected a bit more in the relevant priorities (or related narratives). On the peer review work programme, one Member raised general concerns and said that some peer reviews have been launched too early after the implementation of respective guidelines what might not be the most efficient. He was of the view that proposed peer reviews in the area of consumer protection were too general, and their scope was too wide. Other Member said that the proposed work on supervisory independence might be premature and that the EBA may want to consider collecting national experiences and practices first. On the recommendations by the ACP, one Member referred to the classification of institutions and questioned whether the proposed classification was suitable for all areas, mentioning in particular the ESG disclosure requirements. He also asked for national flexibility when classifying institutions for various purposes. Other Member also referred to the ESG and the treatment of ESG transitional plans. In relation to the ESG topic, another Member cautioned against the possibility of double counting when providing guidance on the way to consider climate related risk factors in the valuation of collaterals (GLs on loan origination and monitoring).

62. In his response, the Co-Chairperson of ACP acknowledged the comments and said that they would be further considered by the ACP.

63. The Executive Director added that the ACP's advice would be further analysed in the context of the finalisation of the 2025 Work programme. He noted also that the proposed topics for peer reviews for 2026, including the orientation of proposals on consumer protection related aspects, would be further reviewed in due course. Regarding the work programme, the need for flexibility to address specific topics could be further considered

during the finalization by September. The EBA was ready to discuss requests for additional work with the EC subject to positions agreed by the BoS.

64. The Chairperson concluded by noting the Members' support and their approval.

Conclusion

65. The BoS agreed with the priorities and narrative for the 2025 Work programme and the Peer review work plan.

Agenda item 9: Supervisory convergence report and 2025 ESEP

66. The Chairperson introduced the item by reminding the Members that according to its Founding Regulation, the EBA shall contribute to fostering supervisory convergence across the European Union and it shall play an active role in building a common supervisory culture and ensuring the consistent application of the Single Rulebook. Two of the tools to the EBA's disposal to achieve this convergence and common culture, and also to report its relevant findings have been the Report on Convergence of Supervisory Practices, and the European Supervisory Examination Programme (ESEP), both developed by the EBA on an annual basis. The supervisory convergence report summarised EBA efforts and achievements on supervisory convergence in a certain year and highlights EBA's observations on the respective developments and conclusions. The ESEP identified key areas for heightened prudential supervisory attention in the EU.

67. The EBA Head of Supervisory Review, Recovery and Resolution Unit (SRRR) continued by summarising the main points of the 2023 Supervisory Convergence Report and said that the Report, structured in various sections, analysed the degree of progress in the convergence of supervisory methodologies and measures and described the level of implementation of the key topics identified in 2023 ESEP, the analysis of the convergence of supervisory practices in the context of Pillar 2 and liquidity measures, the outcome of peer reviews and benchmarking exercises, EBA's conclusions on the functioning and performance of closely monitored colleges, EBA's most relevant policy developments, and EBA's training activities. Based on a self-assessment survey, the EBA concluded that most CAs incorporated the ESEP 2023 key topics in their supervisory priorities for 2023. Some CAs did not include one or more key topics due to their assessment of risks most relevant in the national context. With regard to the Pillar 2 survey, he said that there was still room for further consistency in the identification and treatment of risks covered by the P2R across the EU. The Head of SRRR then focused on 2025 ESEP and noted that it formed part of the EBA's supervisory convergence toolkit which contributed to the delivery of the EBA's supervisory convergence mandate. He mentioned that in the previous years, the BoS stressed the need to move towards a more targeted approach in setting the annual topics. Accordingly, the EBA identified three key topics for 2025, targeting aspects that were considered 'specific' for the upcoming year compared to the 'business as usual'. These topics also reflected significant regulatory developments aiming at facilitating their

implementation in line with the EBA's convergence mandates. The Head of SRRR briefly reflected on these topics - Testing and adjusting to increasing economic and financial uncertainties; Digital challenges, in particular ICT risk management and building operational resilience towards digital transformation; and Transitioning towards Basel III and the EU banking package implementation by ensuring that institutions' information systems and capital planning were able to support the revised prudential metrics and corresponding robustness. He concluded by mentioning that while developing the ESEP, the EBA collected input from CAs as well as ECB and that subject to the BoS's approval, it would be published on the EBA website.

68. The Members supported the work. One Member suggested to add further caveats on the limitation of the methodology used in report, in particular with regards to the sample of banks and asked the EBA to further consider how to improve representativeness for future reports.

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

Conclusion

70. The BoS approved the 2023 Supervisory Convergence Report and 2025 ESEP by consensus.

Agenda item 10: Renewal of the Banking Stakeholder Group

71. The Chairperson informed the Members that the mandate of the EBA Banking Stakeholder Group (BSG) was to expire on 30 June 2024. Following a call for application issued in February this year, a selection of candidates and a reserve list was prepared by EBA staff. The composition of the BSG was driven by several criteria identified in the EBA founding Regulation, with the objective of having a balanced representation of stakeholder's interest in the banking sector and beyond.

72. The EBA Head of Governance and External Affairs Unit (GEA) continued by noting that the 4-year mandate of the current BSG was due to expire on 30 June 2024. Therefore, the EBA issued, in coordination with the other ESAs, a call for applications on 27 February 2024 for a period of six weeks. The EBA has received 149 applications, two thirds being from male applicants, covering a broad range of EU Member States. An internal selection of candidates was performed by EBA staff, according to the selection criteria on qualifications and gender/geography diversity set in Article 43 of the EBA founding Regulation. Despite the lower level of female applicants in general, and more limited applications for consumers and academics, a selection of 30 candidates respecting gender and geographical balance has been tabled to the BoS. This selection included six current and four past BSG members, which should allow good business continuity whilst ensuring a substantial renewal of membership. He concluded by noting the Management Board supported the selection during its meeting in May 2024.

73. The Members supported the selected candidates. One Member suggested considering more industry representatives from credit institutions to be shortlisted and selected for the BSG.

74. In his response, the Head of GEA clarified that according to the EBA Funding Regulation, the representatives of financial institutions had to include at least three representatives of cooperative and savings banks. He also noted that the EBA aimed at aligning the composition of the BSG with the EBA's mandates to include representatives of financial institutions that could provide expertise on topics that would be on the EBA's Work programme in the coming years, such as payments services.

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

Conclusion

76. The BoS approved the proposed selection and reserve list of BSG candidates by consensus.

Agenda item 11: MiCAR Supervisory Handbook and Supervisory priorities

77. The Chairperson introduced the item by reminding the Members that the work on MiCAR policy and supervision was one of the five strategic priorities of the EBA for 2024. In preparation of the new supervisory responsibilities under MiCAR, the EBA has done a lot of work not only to build up its own supervisory framework, but also to assist CAs with their supervisory preparedness and to ensure a common approach.

78. The EBA Head of Digital Finance Unit (DF) continued by explaining that the regimes for the issuance of ARTs and EMTs, and accordingly supervisory tasks for the CAs would apply from 30 June 2024 and for the EBA from 30 December 2024. In accordance with its mandates on MiCAR supervision and supervisory convergence, the EBA prepared a set of deliverables to ensure supervisory preparedness for the new supervisory responsibilities under MiCAR and a common approach to the supervision of ART/EMT issuers under MiCAR.

79. The EBA Senior Policy Expert (Expert) presented the MiCAR Supervisory handbook and clarified that it complemented the single rulebook by providing practical support for the implementation and application of the regulatory framework taking into account the specific nature/risks of ART/EMT issuers. It was a practical non-binding supervisory tool to promote convergence and good practices, focusing on the supervisory assessment, including explanatory notes, guiding questions, practical examples and case studies and would be applicable as of July 2024. She also mentioned that it was a living document which would be reviewed to address market developments, regulatory changes and evolving supervisory practices.

80. On the Priorities for ART/EMT issuers supervision - 2024/2025, the Head of DF said that the EBA has identified priorities for ART/EMT issuers supervision, taking into account market events and feedback from CAs supervising EMIs and CASPs under national regimes. The

main focus areas identified were internal governance, financial resilience, technology risk management, and AML/CFT risk management. She mentioned that in the context of these priorities, the experts' group on crypto supervision discussed and supported an internal risk appetite statement outlining the common guiding objectives for supervisory activities towards all ART/EMT issuers. The Head of DF concluded by saying that subject to the BoS approval, the EBA statement for priorities for ART/EMT issuers supervision 2024/2025 would be published on the EBA website.

81. The Members supported the work. On the Handbook, they welcomed the concept of updating the Handbook to reflect developments. One member mentioned that in their interpretation of MiCAR, NCA's are able to assess the holders of qualifying holdings not only against the criteria of good repute, but also against the criteria of financial soundness. According to this member, the handbook does not preclude such interpretation, however the Joint EBA-ESMA Guidelines on suitability that were approved by the BoS earlier in June should be considered, in particular on the scope of information that may be taken into account by the NCA in assessing qualifying holdings. On the supervisory priorities, one Member requested clarification on the order of the priorities. With regard to the risk appetite statement, other Member suggested adding a reference to acting in the best interest of consumers.

82. The Head of DF explained that there was no ranking of priorities but rather they should be assessed based on a risk-based approach with supervisory activities focusing on the most relevant and impactful risks and considering the specific risks of the entities also taking into account that entities may have different risk profiles, maturity levels and compliance culture.

83. In her response, the Expert confirmed that the Handbook was in line with MiCAR and related regulatory products.

84. The Chairperson concluded by noting the Members' support and said that the Handbook would be sent to the BoS for approval in writing after the BoS conference call.

Conclusion

85. The BoS approved the Priorities for ART/EMT issuers supervision - 2024/2025 by consensus.

Agenda item 12: Report on the application of gender-neutral remuneration policies

86. The Chairperson introduced the item by reminding the Members that CRD has mandated the EBA to review the application of gender-neutral remuneration policies two years after the publication of the corresponding Guidelines. For efficiency, and considering that the requirements were closely aligned, the review under Investment Firms Directive (IFD) and CRD was conducted in parallel by EBA staff.

87. The EBA Senior Policy Expert (Expert) continued by noting that the EBA issued Guidelines on gender-neutral remuneration policies for institutions and investment firms on 31 December 2021 and 30 April 2022 respectively (Guidelines). To perform the review, the EBA has collected information from institutions, investment firms and CAs, summarised and analysed the information received in the report. No material practical challenges of the industry to adopt such gender-neutral remuneration policies have been identified, but the observations made by institutions, investment firms and CAs pointed to the persistence of a gender pay gap which indicated that further work was needed to ensure equal opportunities and that there were biases that required further attention, e.g. the gender balance in more senior positions. Also, the level of transparency could be improved by requiring the disclosure of more quantitative indicators in the gender-neutrality of remuneration policies, in addition to the already required qualitative disclosures on remuneration policies. The same applied for disclosures in the area of diversity requirements for the management body, for example disclosures on gender representation at different levels of seniority and an explicit disclosure requirement for the gender pay gap could facilitate changes. Finally, the Expert mentioned concerns raised by industry that were caused by the General Data Protection Regulation, when collecting data per gender, and which could be overcome by introducing a clear and explicit legal basis for collecting gender specific data. He concluded by explaining that that while this report was a one-off report, the EBA was continuously working on the topic and preparing separate reports on gender pay gap as part of remuneration benchmarking (by year 2024 end), and on diversity benchmarking in Q4 2025, including gender pay gap for management body.

88. The Members welcomed the report. Several Members raised concerns on the pay gaps and limited initiatives by the industry. They asked for more explicit references to banks' initiatives and their limited results and shortcomings. One Member noted different national data compared to the version tabled at the standing committee level and asked for a bilateral follow up.

89. The Expert clarified that the tabled report benefited from data corrections following the initial data quality checks.

90. The Chairperson concluded by noting the Members' support and said that the EBA would make final refinements to address the comments raised and send the report for final fatal flaw to the BoS in written procedure.

Conclusion

91. The BoS approved by consensus the Report on the application of gender-neutral remuneration policies subject to final fatal flaw comments.

Agenda item 09: AOB

92. The Members did not raise any comments.

Participants of the Board of Supervisors' conference call on 25 June 2023[1]

Chairperson: Jose Manuel Campa

Country	Voting Member/High-Level Alternate	National/Central Bank
1. Austria	Helmut Ettl	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	Jyri Helenius	Katja Taipalus
10. France	Francois Haas	
11. Germany	Adam Ketessidis	Alexander Schultz
12. Greece	Heather Gibson	
13. Hungary	Csaba Kandracs/Laszlo Vastag	
14. Ireland	Gerry Cross	
15. Italy	Andrea Pilati/Francesco Cannata	
16. Latvia	Kristine Cernaja-Mezmale/Ludmila Vojevoda	
17. Lithuania	Simonas Krepsta	
18. Luxembourg	Claude Wampach	Christian Friedrich
19. Malta	Anabel Armeni Cauchi	Oliver Bonello
20. Netherlands	Steven Maijoor/Willemieke van Gorkum	
21. Poland	Kamil Liberadzki	Olga Szczepanska
22. Portugal	Rui Pinto/Jose Rosas	
23. Romania	Catalin Davidescu	
24. Slovakia	Tatiana Dubinova/Linda Simkovicova	
25. Slovenia	Primoz Dolenc/Damjana Iglic	
26. Spain	Angel Estrada	
27. Sweden	Magnus Eriksson	

EFTA Countries	Member	
1. Iceland	Gisli Ottarsson, Bjork Sigurgisladottir	
2. Liechtenstein	Markus Meier	
3. Norway	Per Mathis Kongsrud	Sindre Weme

Observer	Representative
1. SRB	Karen Braun-Munzinger

Other Non-voting Members	Representative
1. ECB Banking Supervision/ECB	Thijs Van Woerden/ Katrin Assenmacher
2. European Commission	Almoro Rubin de Cervin
3. EIOPA	Kai Kosik

[1] Pascal Hartmann (FMA); Morgan Allan, Eida Mullins (Central Bank of Ireland); Marek Sokol (CNB); Laura Clausen (Danish FSA); Marco Giornetti (Bank of Italy); Francesco Pennesi (SRB); Liga Kleinberga (Latvijas Banka); Ivan-Carl Saliba (MFSA); Pawel Gasiorowski (NBP); Frida Alvarsson (Finansinspektionen); Jerome Henry (ECB)

4. ESMA	Duonia Shita
5. EFTA Surveillance Authority	Marta Runarsdottir
6. ESRB	Tuomas Peltonen

EBA

Executive Director	Francois-Louis Michaud
Directors	Isabelle Vaillant Meri Rimmanen Marilin Pikaro
Heads of Unit	Philippe Allard Lars Overby Angel Monzon Jonathan Overett-Somnier Francesco Mauro Ruta Merkeviciute
Experts	Raffaele Passaro Lot Anne Bernd Rummel Tea Eger

For the Board of Supervisors

Done at Paris on 5 August 2024

[signed]

José Manuel Campa
EBA Chairperson