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Board of Supervisors

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Location: teleconference

EBA-Regular Use

Board of Supervisors meeting – Final Minutes

Agenda item 2: Welcome, approval of the agenda and Declaration of conflict of interest

1. The Chairperson welcomed the Members of the Board of Supervisors (BoS).
2. No Members declared any conflict of interest regarding the agenda items.
3. The Chairperson informed that the Minutes of the 16 September 2020 meeting had been approved in the written procedure.
4. The Chairperson welcomed the new BoS Member and Alternate from Romania.

Conclusion

5. The BoS approved the amended agenda of the meeting.

Agenda item 3: Update from the EBA Chairperson

6. The Chairperson reminded the Members that the purpose of this item was to inform the BoS about various events and issues that took place between the meetings.
 7. The Chairperson informed the Members that the annual ECON hearing of the Chairpersons of the three ESAs took place on 12 October 2020. It also marked the last hearing for the Chairs of ESMA and EIOPA during their mandate. Given that the EBA was currently holding the chairmanship of the Joint Committee, he presented the progress on the joint work as well as the report on the EBA's key deliverables since the last hearing in November 2019. After the introductory remarks, there was a question and answer session with Members of European Parliament (MEPs) with a particular focus on the situation of banks in the context of Covid-19
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and Brexit; Wirecard, or advancement of the CMU and the completion of the Market Quick Fix files.

8. The Chairperson also reminded the BoS that the CRD V introduced in the prudential framework a requirement for third-country groups with total value of assets in the Union of at least EUR 40 billion, to have an Intermediate EU Parent Undertaking (IPU). In this regard, the European Commission (EC) approached the EBA in June 2020 with a letter asking for further guidance on the calculation of the IPU threshold, and in particular on how to determine the relevant cut-off date for the calculation of the total value of the assets in the EU; and how to take into account the fluctuation in the amount of EU assets when calculating the threshold. Given that a common methodology for the calculation of the IPU threshold was essential for a consistent application of the IPU requirement, the EBA was of the view that there was a need for own-initiative guidelines with a view to ensuring consistent application and effective supervisory practices. The guidelines should be prepared for consultations by the end of 2020 and finalised in the second quarter of 2021.
9. Finally, the Chairperson updated the BoS on the teleworking policy at the EBA and mentioned that presence in the office was voluntary. He highlighted that regardless of the remote working conditions, the EBA was able to adequately engage with its stakeholders and had successfully organised several workshops, recently on financial education and on digital operational resilience.

Agenda item 4: Risks and vulnerabilities in the EU

10. The EBA Head of Risk Analysis and Stress Testing Unit (RAST) updated the Members on current risks and vulnerabilities in the EU banking sector and focused on the latest available supervisory data (Q2 2020) as well as on the COVID-19 specific reporting. He mentioned that CET1 ratios increased due to rising capital as well as decreasing RWAs. Due to the increase in L1 cash and reserves, the LCR reached 165.7% - reflecting also the impact from the TLTRO III programme. Major asset quality indicators have not deteriorated yet, however NPLs volumes slightly increased, reversing the decreasing trend of the previous periods. Furthermore, allocation in Stage 2 loans has considerably increased while impairments charges for Stage 1 and Stage 2 loans had a substantial increase in the last 2 quarters (around 25% increase). Cost of risk has increased, and forborne loans rose significantly in Q2. Asset volume reported by EU banks increased mainly due to the rise in cash balances, and supported by growing loans subject to Public Guarantee schemes. Profitability remained a key concern and cost cutting measures to increase profitability were more relevant than ever for the banks. Cost reduction through automation and digitalisation have remained one of the primarily targeted areas to improve profitability. The Head of RAST also summarised some key findings from a draft thematic note on moratoria and government guarantees based on the Covid-19 reporting data from June 2020. He explained that the relief measures have had high usage across many countries and by providing the necessary liquidity and removing the pressure of loan repayments during a period of increased liquidity needs, the measures have contributed to provide breathing space to borrowers and also to support lending through public guaranteed

scheme loans. The EBA was planning to continue monitoring these exposures in the next reporting quarters.

11. A presentation followed by SE BoS Member on cost reduction measures. The BoS Member focused on the use of online banking services and mentioned that usage of internet banking increased from roughly 70% of the Swedish population in 2010 to 90% in 2019. Even in the age span 65-79 years more than 80 % prefer to visit their bank online. Given that the population rarely visited their local banks, several banks did not have any branches at all. Furthermore, banks have had a lower C/I than EU banks in general and from 2014 onwards, expenses and income have grown at same rate meaning C/I has been relatively stable from then. She pointed out that smaller banks had similar C/I ratios than their bigger peers so scale was not an impediment for efficiency. Going forward, the BoS Member reported some cost pressures coming from new legal obligations to provide access to physical branches to customers in rural areas.
12. Several BoS Member provided an updated on their national market developments.
13. With regard to liquidity buffers, majority of the Members were of the view that the buffers were significant enough and some Members also mentioned that their banks were not even using all available programmes introduced by their central banks. Two Members stressed the link between the liquidity and monetary policy stance as well as uncertainty of macro-economic impacts of the Covid-19 second wave which in some cases lead to the fact that banks were accumulating liquidity on a preventive basis. A number of Members noticed increase in savings, mainly from households and noted that this could impact the profitability of banks as there is no sufficient demand for loans to channel these deposits.
14. On the future availability of credit, Members did not raise significant concerns but one Member mentioned that ECB BLS survey shows some banks have been tightening their lending conditions.
15. Some Members referred to the different provisioning levels compared to banks in the UK or the US. One Member informed that their banks were closely monitoring all clients in order to identify early enough if these could be hit by the crisis.
16. In relation to digitalisation, automatisisation and cost reduction, one Member confirmed that their banks have made good progress in digitalisation, including a fully digital way of opening bank accounts. Other Members agreed that the digitalisation has increased efficiency but noted that investments into the digitalisations differed between small and big banks. For smaller banks, in particular, two Members noted that it was difficult to raise the necessary investment needed for digitalisation.
17. The Head of RAST confirmed that the EBA has noticed different use of public guarantee schemes across the countries and also, that in some countries, these were not used at all.

18. The Chairperson concluded by stressing the uncertainty on the overall economic outlook with different economic impact across countries in the EU. He also said that the EBA was planning to finalise the thematic note on moratoria and government guarantees in the coming weeks with an aim to publish it by the end of November.

Agenda item 5: EU-wide Stress test

19. The Chairperson clarified that under this item, two topics were to be discussed – the stress test scenario and the objectives of the EU-wide stress test in 2021.
20. The Chair of the ESRB Task Force on Stress Testing updated the BoS on the preparations for 2021 adverse scenario. He explained the narrative elements of the scenario and the impact of the Covid-19 crisis. He provided an initial assessment of the financial variables considered for the scenario as well as the evolution, severity and cross-country heterogeneity of key macroeconomic variables. He also referred to a planned timeline according to which the full scenario package could be available for the EBA at the end of January 2021.
21. The EBA Director of Economic Analysis and Statistics Department (EAS) continued by noting that some objectives of the stress test, such as identification of risks; transparency; benchmarking with national supervisory stress tests, would remain but the integration of stress test results into the SREP 2021 and determination of P2G in particular, would deserve some further discussion at the BoS level. He highlighted that the stress test scenario had to be robust and severe to capture impacts of the crisis in banks' balance sheets while providing further stress going forward.
22. The ECB Banking Supervision representative clarified that the ECB was planning, as in the past, to use the quantitative results of the stress test to update the P2G. He noted that some elements, such as the recommendation on dividends would require further discussions. Regarding the scenario, he stressed that there should not be blind spots in any countries and risks types when modelling the scenario and also that too much dispersion between countries was not advisable.
23. With regard to the scenario, several Members highlighted that the scenario had to be severe, the need to maintain the credibility of the exercise, and that the current proposal would have to further address the high level of uncertainty. They mentioned that the starting points in December 2020 were, under the current situation, very uncertain. Some were of the view that it was an extreme scenario. One Member mentioned the offsetting effects of a potential economic rebound in 2022-23 and the fact that the possible re-staging of loans under the payment moratoria has been assumed but no curing assumption has been adopted.
24. Some Members referred to the communication on the stress test exercise and were of the view that any communication had to be transparent given that this exercise was an important supervisory tool. At the same time, they asked for cautiousness in relation to the use of the

results of the stress test in order to avoid any misunderstandings on the side of the market and analysts.

25. The BoS agreed that given the uncertainty on the market and with an aim to maintain the credibility of the stress test exercise a credible scenario with adequate severity was essential. Some Members argued that, in any case, uncertainty should not be compensated with more severity. At the same time, to collect information that could be used for further supervisory discussions, based on the development of the situation in the coming months, a degree of flexibility had to be considered with regard to the uses of stress test results. While some Members supported the publication of a communication on the potential use of stress tests results, some Members were cautious and asked to further discuss prior to any communication and to keep some degree of flexibility based on the developments until the publication of stress test results in 2021. One Member was of the view that the stress test results could determine the policy on dividends and related recommendations and that certain precautionary recapitalization exercises and programmes could also be based on the results.
26. In his response, the ESRB representative noted the views expressed on the severity of the stress test scenario and a need to further discuss specific variables, such as real estate prices. Regarding the comments on dispersion, given that many countries have been implementing temporary policies as result of the Covid-19 crisis, the ESRB representative said that these would have to be considered in the finalisation of the scenario.
27. The Chairperson concluded expressing that the scenario presented during the meeting was supported by the majority of the BoS members and by stressing that the scenario had to be credible, supported by a good narrative, it should be severe and should not be superseded by the reality. The next update on the preparation of the exercise was planned for the BoS meeting in December.

Agenda item 6: 2021 Convergence Plan

28. The Chairperson reminded the BoS that on a yearly basis, the EBA set out a Convergence Plan containing key topics for the attention of prudential supervisors for the upcoming year with the aim to foster supervisory convergence across the Union.
29. The EBA Director of Prudential Regulation and Supervisory Policy Department (PRSP) explained that given that implications of the Covid-19 crisis on the EU banking system would probably materialise over the course of 2021 and onwards, the selection of the key topics were clearly driven by the desire to capture, to the greatest extent possible, the true extent of the main risks entailed by the pandemic and their prospective crystallization and to ensure that banks navigate through this crisis by taking effective measures subject to supervisory scrutiny. The EBA selected four topics: asset quality and credit risk management; ICT and security risk and operational resilience; profitability and business model, and capital and liability management. The Director of PRSP also clarified that after the BoS approval, the EBA would share the Convergence Plan with the supervisory community, but would not publish it on a stand-alone

basis up until the Report on Convergence of Supervisory Practices for 2020 was prepared and approved by the BoS in early 2021. It would be then published as an integral part of this Report, similarly to last year.

30. One Member stressed to ensure the appropriate degree of flexibility in order to address any issues resulting from the Covid-19 crisis.
31. The BoS supported the 2021 Convergence Plan.
32. The Chairperson concluded that the BoS approved the 2021 Convergence Plan by consensus and that the EBA would consider keeping a room for its flexibility and manoeuvring in order to address impacts of the Covid-19 crisis.

Conclusion

33. The BoS approved the 2021 Convergence Plan by consensus.

Agenda item 7: EBA Covid-19 Strategy

34. The Chairperson introduced the item by saying that after several months of the Covid-19 crisis, it was important to coordinate the unwinding of the various support measures implemented as well as to decide whether to take any further support measure.
35. The Director of PRSP summarised preliminary evidence on the impact of the crisis and related measures taken during spring 2020 based on the reporting framework put in place with a view of identifying the early indicators of related risks. She also listed some of the actions taken in response to the crisis and presented an overview of the EBA Covid-19 strategy, which would have to be followed by a number of individual actions, in particular with regard to prudent dividend and other distribution policies; leverage ratio; capital and liquidity buffers; recovery plans, and ICT planning. Finally, she also presented a timeline of different Covid-19 measures and their unwinding.
36. The ECB Banking Supervision representative informed that the ECB was considering adding several data points to the reporting around, in particular, non-compliant payment moratoria and suggested to include the same also in the EBA Covid-19 reporting templates. With regard to prudent dividends, he asked for coordinated approach with the ECB/ESRB where this issue should be discussed in the coming weeks. He also proposed to further consider the wording on the capital and liquidity measures around the early replenishment of buffers and finally, he was of the view that the role of the EBA might be limited with regard to the leverage ratio, in particularly because the ECB was already coordinating efforts for the Eurozone countries.
37. With regard to the envisaged timing for the measures established in reaction to Covid-19 and their expected unwinding, the BoS did not raise major concerns. Two Members were of the view that the EBA should focus on preparing a process regarding the re-assessment of the Guidelines on payment moratoria and their potential extension and the EBA's role going

forward. The EC representative stressed that certain timelines were set in the legislation. He also asked for maintaining some degree of flexibility and regular review of the measures. One Member supported this request.

38. On the analysis and indicators, one Member pointed that there were a lot of variations on IFRS9 across the banks but if the EBA could use the results of the upcoming stress test, it might obtain a good picture of applied practices. Other Member requested to include grace periods with regard to loans. On the monitoring, one Member was of the view that the EBA should not create an additional monitoring on a regular basis but should rather focus on the data quality of the reported data as they were not always reliable.
39. In relation to the list of additional/revised measures and the presented stances, several Members commented on the dividends issue and some were of the view that there should be a general move away from withholding of dividends. Others preferred to postpone any decisions in this regard until the 2021 stress test was finalised or until discussions at the ECB and ESRB level took place and to consider this issue in an international context. With regard to the buffers, some Members proposed to align all approaches with the Basel framework. On the capital buffers, one Member stressed that visibility of credit risk was currently limited.
40. Several Members referred to a need to prepare a clear pan-European communication and to focus it on macroprudential concerns. Many Members also highlighted the importance of good cooperation and coordination going forward. Some Members emphasized that coordination with other European authorities should not prevent the EBA from forming its own opinion on this matter.
41. The ESRB representative supported the coordination role of the EBA and informed that the ESRB General Board was planning to discuss the issue on dividends on 15 December.
42. The Chairperson concluded by noting the comments raised by the BoS and stressed the need of flexibility to be applied in areas where there were no legal deadlines. He said that the EBA would further analyse the policy on payment moratoria. On the monitoring, he said that the EBA would continue its monitoring exercises in accordance with the proposals presented to the BoS but would remain open to further changes. In particular, he clarified that the purpose of this monitoring was currently to inform the EBA stance on various Covid-19 policies and only at a second stage publication will be evaluated. On capital buffers, he suggested that the focus should be on ensuring a prudent use rather than encourage their replenishment. With regard to the dividends, the Chairperson confirmed that the EBA would coordinate its communication with the ESRB but also that this should not prevent EBA to form a stance. For this purpose, he suggested that further technical discussion should be conducted evaluating different options on the dividend restrictions. On the Leverage ratio, the Chairperson concluded that no further action is envisaged.

Conclusion

43. The BoS supported the EBA Covid-19 strategy.

Agenda item 8: 2nd supervisory convergence report on the EBA Guidelines on Product Oversight and Governance (POG)

44. The Chairperson reminded the BoS that the EBA published its first report on the POG Guidelines in July 2019.
45. The EBA Head of Conduct, Payments and Consumers Unit (COPAC) continued by mentioning that the EBA developed the POG Guidelines in response to the significant retail conduct failures that the EBA had identified in 2013/14, in terms of the mis-selling of products. After the publication of a first report in July 2019, the BoS requested the EBA to follow-up on it with a larger sample of financial institutions, representing a larger number of Member States, so as for the EBA to be able to arrive at more robust conclusions. He said that the second report summarised the findings of a review carried out with 78 credit institutions, payment and e-money institutions across 12 EU Member States, identified good practices compliant with the Guidelines as well as areas that require further attention by financial institutions.
46. The BoS did not raise any comments.
47. The Chairperson concluded that the BoS approved the report by consensus and encouraged Members to support subsequent supervisory convergence work on consumer protection.

Conclusion

48. The BoS approved the 2nd supervisory convergence report on the EBA Guidelines on Product Oversight and Governance.

Agenda item 9: State of industry readiness on strong customer authentication (SCA) under PSD2

49. The Chairperson introduced the item by referring to the discussion at the previous BoS meeting in September 2020 during which he had provided a short update on the industry readiness on strong consumer authentication (SCA) for card-based ecommerce transactions.
50. The Head of COPAC continued by noting that earlier in October, the EBA published the Opinion on the SCA migration plans, which set the migration deadline to 31 December 2020 and prescribed the actions to be taken by CAs, issuing and acquiring payment service providers (PSPs). These actions included regular reporting from PSPs to CAs, and from CAs to the EBA, on the progress made. The Head of COPAC presented some oral corrections to the data presented in the note, explained that the figures suggested that the majority of e-merchants in the EU seemed to be able to support SCA and the majority of payment cards issued in the EU seemed to be SCA enabled. He ended by thanking national authorities for the progress made and encouraged them to follow the recommendations set out at the end of the note to reduce issues arising at the beginning of 2021.

51. One Member confirmed the data for their jurisdiction and informed that their national approach was to ensure that all market participants had to meet the criteria by the end of 2020, without further adjustments.
52. The Chairperson concluded by acknowledging the progress achieved and encouraging competent authorities to continue the monitoring of the migration plans to ensure completion by year end. He indicated that the EBA will prepare a final implementation report and present it to the BoS in Q1 2021.

Agenda item 10: CfA Benchmarking of National Loan Enforcement Frameworks (including Insolvency Benchmarking)

53. The Chairperson reminded the BoS that on 7 January 2019, the EBA received a Call for Advice (CfA) from the EC on Benchmarking of National Loan Enforcement Frameworks as part of the EC ongoing work towards the Capital Market Union. In response, the EBA submitted to the EC in April 2020 its Interim Report on the CfA.
54. The EBA Head of Economic Analysis and Impact Assessment Unit (EAIA) informed that the EBA was asked to conduct an ad hoc data collection on a loan-by-loan basis from a sample of institutions with the purposes of producing benchmarks covering all EU Member States and analysing the obtained data, on recovery outcomes regarding bank loans and by studying potential positive characteristics of country-level loan enforcement procedures in terms of recovery rates and times to recovery. During the production of the Interim Report, a few BoS Members and also the EBA staff pointed out that severe data quality issues persisted which were not possible to tackle using only the data submitted to the EBA until April 2020. Given the Covid-19 pandemic context, it was not reasonable to ask the banks and the CAs for complex resubmissions in order to produce the Final Report by end-June 2020. Therefore, the EC agreed with the EBA on extending the deadline for the submission of the Final Report to November 2020. The Head of EAIA also explained that the exercise was voluntary, the CAs were asked to randomly pick their banks, respecting certain characteristics in terms of representativeness (bank's business models and bank's size provided by the EBA staff). For some Member States (MS) and only in some benchmarks of such MS, given the lower submission of observations/loans, the respective country's sample and representativeness shows a lower level than desired and provided by the majority of the MS. In total, more than 160 banks participated, representing a large proportion of the banking systems for most of the MS, in terms of total assets, and all loans under formal enforcement procedure from those banks were reported and used after a rigorous data quality process. It was the first time that such type of data was collected by the EBA staff, and the data quality went through a rigorous process similar to other EBA publications. In addition, the benchmarks were further scrutinised by econometric analysis to study possible positive characteristics of the enforcement frameworks i.e. that tend to improve the recovery outcomes.
55. The SRB representative supported the work, highlighted the importance of such information published at the EU level, and explained that the SRB was assessing it in order to use the

findings for the purpose of their technical tool used by resolution authorities. He proposed to further discuss bilaterally between the EBA and SRB.

56. The BoS supported the work. Several BoS Members raised concerns related to the representativeness of some benchmarks in some MS, given the low number of loans provided by some participating banks from such MS, and asked to add clearer and transparent caveats explaining the limitations of the Report. The majority agreed with the submission of the Report to the EC. One Member did not agree with the publication of the Report, given the lack of observations/loans provided by the respective participating banks, for some benchmarks in such MS. The reservations as regards publication were shared by another Member, while this Member also praised the large amount of unique information included in the report. The ECB Banking Supervision representative suggested to take out single countries if the EBA would decide to publish the Report. One Member asked whether, given the mentioned low number of loans provided by some participating banks for some benchmarks in some MS, the Report would fulfill the EC's request.
57. The ESRB representative emphasized the importance of the Report, in particular in relation to the financial stability issues.
58. The EC representative clarified that the EC tried previously to collect similar relevant data, including via an external study, but the results were not satisfactory. He acknowledged the limitations of the Report but said that the results were robust and therefore, the EC was planning to submit the Report for discussion in its experts' group on 25 November as well as during the Financial Services Committee. The EC representative confirmed that the EC preferred to leave it to the EBA to decide whether they wanted to publish the report. He concluded that the Report could form a good basis for the EC's future work without specifying a concrete legal instrument to be used.
59. The Head of EAIA noted the comments and explained that it was for the first time the EBA was collecting this type of information and that during the extended period for submission of the report to the EC, the EBA was able to liaise with the Member States and update some of the data and increase even further the number of observations/loans, allowing the production of several robust benchmarks for the vast majority of the MS.
60. The Chairperson concluded by stressing the importance of the work and noting the comments on the potential caveats. Therefore, he asked the Members for comments in a written procedure and then asking for approval and agreement on the publication.

Conclusion

61. The EBA staff to receive comments from the BoS and after that submit the Report to the BoS for approval in written procedure.
62. The BoS supported the submission of the Final report to the EC.

Agenda item 11: CfA to update the Basel III impact assessment: presentation of the key impact numbers and methodology)

63. The Chairperson introduced the item by informing the BoS that on 4 May 2018, the EC sought technical advice from the EBA on the impact of the Basel III reforms on the EU banking sector and the wider EU economy. The EBA answered to this Call for Advice in August and December 2019. In 2020, the EBA delivered additional work on assessing the impact at the individual entity (solo) level. Due to the current Covid-19 situation, the preparation of the Legislative Proposals was delayed and on the 21 of August, the EC has requested the EBA to update the impact figures in its previous advice on the various elements of the final Basel III reforms package.
64. The Director of EAS clarified that the EC asked for an update of the Basel III impact based on data collected as of 4Q 2019 and an estimation of the impact of the Covid-19 pandemic on the final Basel III reforms and the wider economy. He also mentioned that the updates would be based on data available at the EBA and no new data collection would be carried out. The latest data available regarding the implementation of the Basel III framework was the 4Q 2019 QIS data. Furthermore, the results would be based in a reduced sample in comparison to the previous CfA results. The sample for analysis at EU level reduced from 189 to 98 banks and some countries would not be represented in the update analysis. In terms of size, only four small banks were to be included in the sample, which implied a drop of more than 80 % (24 banks in previous CfA). In terms of business models, there was no representation of factoring and leasing banks. Finally, he presented preliminary results.
65. The BoS supported the work. One Member proposed to further check country results with the CAs. Several Members asked for further discussions on the results at the experts' level. They also highlighted the importance of identifying the drivers of the impact results. Regarding the presentation of the results of the output floor impact under the three different options requested in the CfA. The Members highlighted that option 3 was not Basel compliant (as indicated in the EBA report in response to the initial CfA on this matter) and therefore suggested to show results for this option in an annex explaining the problems linked to this option or even not publishing this results. Two Members expressed their opposite views on this issue, highlighting the importance to answer the EC's request. Several Members highlighted the need to re-affirm previous policy recommendations. The EC representative, expressed the need of presenting the results also during the transition period and to incorporate some of the Covid-measures (quick fixes) also in the updated scenario.
66. Regarding the Covid impact, there was a general support of the methodology presented. Members highlighted the necessity to explain all the caveats and limitations of the analysis and to incorporate a qualitative assessment to complement the quantitative results. The EC representative, highlighted the need to align the scenario for the Covid shock with the one used by the ECB in their macro prudential analysis.

67. The EC representative explained that the EBA's work would feed into the EC's legislative proposal which should be tabled in Q2 2021.
68. The Director of EAS confirmed that before the submission of the results to the EC, there would be a number of discussions with respective working groups in order to finalise the analysis. He said that the EBA was planning to publish country break downs but to include also caveats on the limitations of the analysis. However, for the impact of the Covid-19, the EBA would present only the EU-wide data. Regarding the alignment of scenarios between the Covid-shock and the ECB macro-economic analysis, the sensitivity 3 in EBA's Covid-19 thematic note was comparable with the central scenario implemented by the ECB.
69. The Chairperson concluded that the previous policy recommendations would be re-affirmed.

Agenda item 12: Discussion paper on ESG risks management and supervision

70. The Chairperson informed the BoS that the EBA had a mandate to prepare reports on incorporation of ESG risks into risk management and supervision of the credit institutions and investment firms (CRD and IFD mandates). In order to collect feedback from stakeholders, the EBA drafted a Discussion Paper as an important step in the finalisation of the EBA report on ESG risk management and supervision.
71. The EBA Head of Banking Markets, Innovation and Products Unit (BMIP) explained that the Discussion Paper built on existing work, including the EC's taxonomy, and included proposals for new uniform ESG risk-related definitions (chapter 2), explored indicators, metrics and methodologies to assess ESG risks (chapter 3), discussed the ways in which institutions can incorporate ESG risks in a proportionate manner in their internal governance and risk management frameworks (chapter 4), and, finally, made proposals on how to integrate ESG risks into the supervisory review process (chapter 5). She also mentioned that while the Discussion Paper covered both mandates (i.e. CRDV and IFD), the findings and recommendations in chapter 4 and chapter 5 were written more specifically for credit institutions. However, in order to better reflect the perspective and particularities of investment firms in the report (or alternatively carving out the investment firms), a dedicated section for investment firms have been included at the end of chapter 4 with two main conclusions for investment firms.
72. The BoS supported the work.
73. The EIOPA representative proposed minor drafting suggestions shared with the EBA before the meeting.
74. One Member also proposed drafting suggestions with regard to recommendation k) in Chapter 4 (Section 4.3.3) to better reflect the principle of a sound and prudent remuneration scheme.

75. The Chairperson concluded by noting the BoS agreement on the publication and informed that the EBA would include the drafting suggestions and circulate the Discussion Paper to the BoS for information.

Conclusion

76. The BoS agreed with the publication of the Discussion paper on ESG risks management and supervision for a 3-month period.

Agenda item 13: EBA Report on significant risk transfer

77. The Chairperson introduced the item by noting that the tabled report was a follow-up of the EBA Discussion Paper on SRT that was endorsed by the BoS and published in December 2017.
78. The Head of BMIP explained that building on the findings laid out in the Discussion Paper on SRT and on further analysis, the present report provided detailed recommendations to the EC on how to address various shortcomings of the current EU framework on SRT. In particular compared with the Discussion Paper, the final report specified in a more detailed fashion, the safeguards that securitisations, for which SRT was sought, should include where they feature one or several of the problematic structural features; provided detailed guidance on the applicable methodology for the SRT tests, including some quantitative examples on how the test should be implemented, and sets a new common EU supervisory process for SRT assessment. In the report, the EBA also proposed a monitoring role for the EBA in order to ensure consistency in the supervisory SRT assessment of innovative structural features.
79. The BoS supported the work. Several Members commented on the EBA's monitoring role. In particular, while members generally supported the proposal, they considered that the report should further specify the nature and the content of that role. In particular, they were of the view that the EBA should not have any transaction-specific role, should not pre-approve any transactions and should have more ex post tasks. One Member stressed the importance of the EBA's role, in particular in relation to the expected bulk of transactions of NPLs.
80. The ECB Banking Supervision representative acknowledged the importance of the work and noted the EBA's approach towards excess spreads. He also highlighted that the recommendation put forward in the report on the preliminary non-objection process would not be applicable in the current decision-making framework of the SSM and he suggested that more flexibility should be given to possibly allow governing bodies to revoke pre-approval decisions in the context of SRT.
81. The EC representative clarified that the EC's intention was to use the recommendations in the broad review of the securitization framework scheduled for 2021. He mentioned that if the EBA would want to fast track some of the aspects of the report, it should discuss these with the EC in the coming months.

82. One Member pointed that the report should not give an impression that it was intended to be a pre-legislation or a draft RTS.
83. The Head of BMIP clarified that the EBA's monitoring role is meant to provide guidance on innovative structural features and would not involve the assessment of individual transactions. To avoid confusion, it was suggested to delete the last sentence of paragraph 233. She also mentioned that the report was aimed at fulfilling the legislative mandate and therefore, it would be submitted to the EC as a whole package but the EBA was open to discussions on potential fast tracking of some aspects of the securitization framework.
84. With regards to the possibility to revoke preliminary non-objection decision, the Chairperson emphasized that the process should lead to predictable outcomes and avoid undue discretion. A balanced wording of this recommendation could however be considered. Such rewording should include conditions for the ex-post revision.
85. The Chairperson concluded by acknowledging that the Report was broadly supported and said that the EBA would address the comments and circulate the report to the BoS for a final fatal flow.

Conclusion

86. The BoS approved the EBA Report on significant risk transfer subject to minor drafting changes and subsequent written procedure.
87. The BoS agreed with the submission of the Report to the EC.

Agenda item 14: Brexit update

88. The Chairperson reminded the BoS that at its meeting in June, the BoS agreed to issue press communication calling institutions to step up their preparations for the end of the Brexit transition period that was published in July. Given the approaching deadline, the EBA would like to take stock of the industry preparedness and issue another communication repeating the readiness messages for institutions and their clients and provide further details in the area of payments.
89. The EBA Senior Policy Expert informed that the overall assessment of the readiness of banks for the end of transitional period seemed to be satisfactory, although there are delays in ramping up EU operations for some of the incoming banks. He summarised the main EBA activities in this regard, in particular cooperation with the EC on assessment of regulatory equivalence; updating its internal registers and databases in order to remove all information on the UK institutions and liaising with the UK authorities with regard to the update of the bilateral MoU. On the communication, he said that the EBA's aim would be to repeat messages focusing on the need to follow agreements with supervisors; importance of communication to customers as well as adding further details regarding revocation of eIDAS certificates and additional information requirements for EU-UK payments.

90. The BoS supported the work on the communication. One Member was of the view that it was too long and that it should focus on key aspects only and thus suggested deleting background section. On CCPs equivalence statement, several Members were of the view that the EBA communication should not only acknowledge EC decisions, but send messages to the industry regarding supervisory expectations regarding what banks should do in this 18-month period.
91. The ECB Banking Supervision representative provided an update on the SSM banks. He said that the risks seemed to be contained at least for the year-end, but that there were still some banks which needed to finish their preparations with regard to ensuring the key staff was relocated and assets have been moved to the EU. He acknowledged that there was a risk that some UK banks without EU authorisation would continue providing services after the end of the transitional period and that the EBA should monitor this. Finally, he mentioned that the ECB was also preparing a communication to be published in mid-November.
92. The EC representative noted that the outcome of the EU-UK negotiations was uncertain. He stressed a need for market participants to be prepared for a new regime as of 1 January 2021. In this regard, he acknowledged the EBA's input into the EC's equivalence assessment and informed that the EC was analysing the UK response and that for some areas, the UK has already claimed that they were planning to diverge from the EU rules. He supported the EBA's proposal for the communication.
93. One Member mentioned that there were still some outstanding issues in relation to cross-border payments and that additional details in the EBA communication were welcomed in this regard. He suggested to refer in the communication to the EBA Guidelines on outsourcing.
94. The Chairperson concluded by noting the comments and agreed that the EBA would address them and submit the communication to the BoS in written procedure. Furthermore, the EBA would liaise with the ECB and the EC on the publication of the communication to align the messages.

Conclusion

95. The BoS agreed that the EBA issue another Brexit readiness communication. The text of the communication would be finalised through a written procedure.

Agenda item 15: AOB

96. The Chairperson reminded the BoS that the EBA issued a call for membership of ad hoc Peer Review Committee on ESA Guidelines on Acquisitions and Increases of Qualifying Holdings and asked the Members to nominate their experts within a new deadline until 6 November 2020.

Participants of the Board of Supervisors' conference call

28 and 29 October 2020

Chairperson: Jose Manuel Campa

<u>Country</u>	<u>Voting Member/High-Level Alternate¹</u>	<u>National/Central Bank</u>
1. Austria	Helmut Ettl, Michael Hysek	Karin Turner-Hrdlicka
2. Belgium	Jo Swyngedouw	
3. Bulgaria	Radoslav Milenkov/Stoyan Manolov	
4. Croatia	Martina Drvar/Sanja Turkovic Petrinic	
5. Cyprus	Stelios Georgakis	
6. Czech Republic	Zuzana Silberová	
7. Denmark	Jesper Berg/Thomas W. Andersen	Peter E. Storgaard
8. Estonia	Andres Kurgpold	Timo Kosenko
9. Finland	Jyri Helenius	Katja Taipalus
10. France	Dominique Laboueix/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	Ludmila Vojevoda	Maris Kalis
17. Lithuania	Marius Jurgilas/Jekaterina Govina	
18. Luxembourg	Christiane Campill/Martine Wagner	Christian Friedrich
19. Malta	Christopher Buttigieg/Pierre Paul Gauci	Oliver Bonello
20. Netherlands	Sandra Wesseling	
21. Poland	Kamil Liberadzki	Olga Szczepańska
22. Portugal	Ana Paula Serra	
23. Romania	Adrian Cosmescu	
24. Slovakia	Tatiana Dubinova	
25. Slovenia	Primoz Dolenc/Damjana Iglic	
26. Spain	Angel Estrada/Alberto Rios	
27. Sweden	Karin Lundberg	Camilla Ferenius

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

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

Pascal Hartmann (FMA); Kurt Van Raemdonck (NBB); Marek Sokol (CNB); Julia Blunck (BaFin); Eida Mullins, Fionnuala Carolan (CBI); Jose Rosas (Banco de Portugal); Michele Lanotte (Bank of Italy); Eida Mullins (CBI); Izabella Szaniawska (PFSA); Paweł Gąsiorowski (NBP); Petroula Georgaraki, (SRB); Vincent Woyames (ECB);

Other Non-voting Members

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

Representative

Korbinian Ibel, Carmelo Salleo, John Fell
Martin Merlin
Kai Kosik
Tomas Borovsky
Marta Margrét Ö. Rúnarsdóttir
Tuomas Peltonen

EBA Staff

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

Philippe Allard; Lars Overby; Jonathan Overett Somnier; Slavka Eley; Francesco Mauro; Angel Monzon; Olli Castren; Dirk Haubrich

Tea Eger; Oleg Shmeljov

For the Board of Supervisors

Done at Paris on 04 December 2020

[signed]

José Manuel Campa

EBA Chairperson