



EBA BS 2022 584 rev. 1

Board of Supervisors

26 September 2022

Location: teleconference

EBA Regular Use

Board of Supervisors conference call on 26 September 2022 – Minutes

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

1. The Chairperson welcomed the Members of the Board of Supervisors (BoS). He clarified that the purpose of the conference call was to discuss the EBA response to the European Commission (EC) on the current level of margins and of excessive volatility in energy derivatives markets.
2. The Chairperson reminded the Members of the conflict of interest policy requirements and asked them whether any of them considered themselves as being in a conflict. No Member declared a conflict of interest.
3. The Chairperson asked the BoS whether there were any comments on the draft agenda. There were no comments on the agenda.

Conclusion

4. The BoS approved the agenda of the meeting.

Agenda item 2: EBA response to the EC on the current level of margins and of excessive volatility in energy derivatives markets

5. The Chairperson introduced the item by noting that the tabled draft response was based on discussions with the BoS and relevant standing committees as well as numerous conversations with larger banks active in energy derivatives, energy exchanges, credit rating agencies and industry associations. The response should be seen as initial analysis and stock-take of the situation as there was limited data available to underpin the anecdotal evidence that EBA has been able to collect within the limited timeframe provided and depicting the most recent situation. He also noted that the EBA closely liaised with ESMA and that ESMA published their response to the EC's request on 22 September. In terms of the next steps, the Chairperson said
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that after the conference call, the EBA was planning to submit the final version to the BoS on 28 September, taking into account the considerations raised by the BoS in the call today, for a 1-day written approval process. Finally, the EBA would subsequently submit the response to the EC and published it on 29 September 2022.

6. The EC representative summarised the main concerns that led the EC to issue the request. He referred to increased energy prices, unbalanced energy demands and supplies as well as the EC's internal discussions on the liquidity of the energy market and their ongoing work on financial markets, in particular on energy derivatives and margin requirements faced by energy firms as a consequence of volatile markets. The EC representative expressed appreciation of the EBA's draft response, but also noted that it was premature to anticipate any next steps as the EC was to discuss the EBA's as well as ESMA's proposals. He also welcomed the preliminary feedback presented in the tabled response and noted that any constraint for banks appeared not to originate in the prudential or regulatory framework but rather in the banks' own risk appetite. He asked for further analysis on ways to improve the transparency and predictability of margin calls, in particular on an intraday basis, as it was part of EC's request and on the other measures mentioned in the tabled document, such as the temporary relief in prudent valuations. He insisted that any proposed measure should remain commensurate and targeted to the identified problems and be substantiated by its effectiveness in addressing them. He concluded by noting that some measures, such as the use of letter of credit or guarantees were already explicitly allowed in the current framework and recognised under the credit risk mitigation rules. He wondered whether the question was not rather on the applied regulatory haircuts than on the eligibility as such and suggested that the question of a temporary recalibration could be explored by the EBA.
7. The ESMA Executive Director thanked the EBA for a good collaboration in preparation of the responses to the EC. She summarised the ESMA response and said that it provided a high-level assessment concerning the measures to limit excessive volatility (circuit breakers) and CCP margins and collateral. She clarified a number of suggestions included in the response, in particular related to the commodity clearing thresholds, improving regulatory reporting on commodity derivatives and regulating and supervising commodity traders. She concluded the intervention by stressing that ESMA and their national competent authorities have been focusing and strengthening their respective market monitoring and surveillance activities on the energy derivatives markets. Furthermore, the close cooperation between ESMA and national competent authorities would continue to focus on countering possible threats to market integrity and ensure that any potential signal of market manipulation was followed up and investigated.
8. The EBA Director of Economic and Risk Analysis Department (ERA) stressed that according to the evidence collected, in a very limited timeframe, by the EBA for the purpose of the response, banks were already providing significant support for the regular functioning of the energy market by performing collateral transformation, providing guarantees or bridging on behalf of their clients intraday or overnight margin funding gaps that materialise in case of sudden market corrections. As a matter of fact, the EBA analysis showed that bank support to

energy firms has grown rapidly over the last six months. It was however also clear that banks' capacity in providing further support would depend on their risk appetite, in a context of increased geo-political risk and high inflation across all major economies. Albeit not fully used, banks' capacity to further support energy firms - should there be further increases in margin requirements - might be limited.

9. The EBA Head of Risk-based Metrics Unit (RBM) focused his presentation on uncollateralized bank guarantees. He mentioned that no significant regulatory obstacles have been raised by banks to provide these guarantees as part of their own support efforts towards energy companies, but that the support has predominantly taken the form of credit lines. The EBA analysis also showed that other instruments, apart from credit lines and bank guarantees were possible to help ease the pressure on energy firms, such as syndicated loans, which would allow lenders to spread the risk. However, setting up a syndicate of banks requires operational efforts that may not make this instrument available in the short term and possibly at higher cost. The Head of RBM also noted that banks highlighted some regulatory aspects that may be considered to enhance their support of energy companies from the momentary liquidity pressure they were facing, such as mitigating the relatively high calibration of SA-CCR for commodities by reducing the alpha factor, considering more general support in case of extreme levels of volatilities, as was done during COVID for prudent valuation and the market risk VaR multiplier. He stressed that any of such measures should be of a temporary nature and solely aimed at preserving the continued functioning of the energy derivatives market.
10. The Members supported the work. The majority of Members were of the view that the current legislative framework provided measures and guarantees already and should be used to address market developments, if needed. Several Members said that some banks have been already supporting their clients within their risk appetite. They also stressed a need to be cautious on solvency side and pointed at disadvantages of changing the framework during crisis. They referred to Covid-19 related measures and said that similar guarantees and flexibility could be considered to be introduced in a limited way. A number of Members mentioned government guarantees and temporary reliefs, including the VAR backtesting multiplier, and how these could be used to address the situation.
11. The ECB Banking Supervision representative said that further analysis based on their weekly monitoring of energy exposures was needed and that in general, a spillover of risks from the energy market to the financial market should be avoided. He also stressed that banks were mainly governed by their own risk appetite. Similarly to other Members, he was not in favour of changing regulatory requirements and providing relief at this stage.
12. The Chairperson concluded by noting the BoS support and the comments related to the functioning of the current framework. He said that the EBA would further liaise with ESMA and continue to monitor and analyse market developments and the provision of bank guarantees. He asked for any immediate drafting suggestions to be sent by the Members to the EBA by 27 September.

Conclusion

13. The BoS supported the submission of the EBA's response to the EC on the current level of margins and of excessive volatility in energy derivatives markets by consensus and subject to further final fatal flaw review.

Agenda item 3: AOB

14. The BoS did not raise any points under the any other business item.

Participants of the Board of Supervisors' conference call 26 September 2022¹

Chairperson: Jose Manuel Campa

Country	Voting Member/High-Level Alternate	National/Central Bank
1. Austria	Michael Hysek	Karin Turner-Hrdlicka
2. Belgium	Jo Swyngedouw/Kurt Van Raemdonck	
3. Bulgaria	Stoyan Manolov	
4. Croatia		
5. Cyprus	Constantinos Trikoupis	
6. Czech Republic	Zuzana Silberova	
7. Denmark	Jesper Berg/Thomas Worm Andersen	Jens Skovsted Halsnaes
8. Estonia	Andres Kurgpold	Timo Kosenko
9. Finland	Marko Myller	Katja Taipalus
10. France	Dominique Laboureix/Emmanuelle Assouan	
11. Germany	Peter Lutz	Karlheinz Walch
12. Greece	Heather Gibson/Kyriaki Flesiopoulou	
13. Hungary	Laszlo Vastag	
14. Ireland	Gerry Cross	
15. Italy	Andrea Pilati/Francesco Cannata	
16. Latvia	Santa Purgaile/Ludmila Vojevoda	
17. Lithuania	Simonas Krėpšta	
18. Luxembourg	Nele Mayer	Christian Friedrich
19. Malta		Oliver Bonello
20. Netherlands	Maarten Gelderman	
21. Poland	Kamil Liberadzki	Olga Szczepanska
22. Portugal	Ana Paula Serra	
23. Romania	Cătălin Davidescu	
24. Slovakia	Lind Simkovicova	
25. Slovenia	Damjana Iglic	
26. Spain		
27. Sweden	Karin Lundberg	

EFTA Countries	Member
1. Iceland	Unnur Gunnarsdottir
2. Liechtenstein	Markus Meier
3. Norway	Ann Viljugrein, Morten Baltzersen, Sindre Weme

Observer	Representative
1. SRB	Sebastiano Laviola

Other Non-voting Members	Representative
1. European Commission	Martin Merlin
2. ECB/SSM	Stefan Walter
3. EIOPA	Kai Kosik

¹ Matthias Hagen (OeNB); Liga Kleinberga (Financial and Capital Market Commission); Jose Rosas (Banco de Portuga); Eida Mullins (Central Bank of Ireland); Pascal Hartmann (FMA); Marek Sokol (CNB); Cecilia Lozano, Daniel Perez Cid (Bank of Spain); Iris Taleb (SRB); Marc Peters (EC); Luca Serafini (Banca d'Italia); Robert Vasko (NBS)



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| 4. EFTA Surveillance Authority | Marta Margret Rúnarsdóttir |
| 5. ESMA | Natasha Cazenave |
| 6. ESRB | Toumas Peltonen, Francesco Mazzaferro |

EBA

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

Heads of Unit

Philippe Allard
Angel Monzon
Lars Overby
Delphine Reymondon

EBA experts

Tea Eger
Stephane Boivin
Clara Garcia

For the Board of Supervisors

Done at Paris on 17 November 2022

José Manuel Campa

EBA Chairperson