

Minutes of the meeting of the Commission Expert Group on Banking, Payments and Insurance

**Bank Regulation and Supervision**

24 September 2020 (virtual meeting)

**Opening Remarks**

The Chair welcomed members of the group and set out the agenda of the meeting, focusing on the impact and challenges of COVID-19, and – in a second discussion round – on possible implications of COVID-19 for the implementation of the final Basel III reforms.

**Exchange of views on the impact and challenges of COVID-19 and policy measures to address them**

Members provided their views on the impact and upcoming challenges of the COVID-19 pandemic for the banking sector, and on the effect of the policy measures taken so far at EU or national level to mitigate this impact.

There was a common view that thanks to the Basel III reforms, which have already been implemented in the EU, the banking sector entered the COVID-19 crisis on a significantly more resilient footing and could help mitigate the economic shock this time.

All members intervening also confirmed that the targeted adjustments to the Capital Requirements Regulation together with the supervisory flexibility provided by the supervisory authorities and the relief measures taken at national level (e.g. release of macroprudential buffers, set up of payment moratoria and public guarantee schemes) have been instrumental in keeping the economy alive, and effectively avoided a credit crunch.

Views were, however, split on the best way forward: some members would prefer to extend some of the flexibility provided, notably concerning payment moratoria, or to phase them out gradually to avoid possible cliff-edge effects; other members and the European Banking Authority (EBA) advocated for returning to normality rather soon or to tackle possible NPL problems early on in order to avoid that they accumulate as it happened following the previous crisis.

**Exchange of views on possible implications for the implementation of the final Basel III reforms**

The Commission services explained that the severity of the economic shock caused by the COVID-19 pandemic would necessitate an update of the impact assessment that will inform the policy decisions on the implementation of the final Basel III reforms, as announced in

the Interpretative Communication of 28 April. To this end, the Commission services have sent a new Call for Advice to the EBA on 21 August and asked the European Central Bank (ECB) to update its macroeconomic assessment of the reforms. They further indicated that the results of the analysis from the EBA and ECB were expected by the end of November this year.

The EBA informed about its work to respond to the new Call for Advice, clarifying that it would provide an update of the quantitative impact figures whereas no changes to the policy recommendations would be envisaged. The update would be based on data which were already available at the EBA thereby avoiding a new data collection.

Members provided their views on the implications that the COVID-19 pandemic may have for the implementation of the final Basel III reforms.

One member presented a number of joint proposals developed together with another member for the implementation of some key components the final Basel III reforms, stressing that further work was needed on the details.

Some of the members intervening expressed support for the proposals (three members for the proposal to exercise the discretion to disregard historic losses in the calculation of operational risk requirements, and two members for the proposal to implement the output floor as a parallel stack). Three other members showed openness for further discussions, highlighting the need to specifically address certain (additional) aspects (e.g. real estate valuation, level of application of the output floor, equity finance).

Two other members and two observers, by contrast, dismissed the joint proposals, particularly on the output floor, arguing that the impact of COVID-19 should be mitigated by temporary adjustments not by watering down the structural changes provided by the final Basel III reforms. Concerns have also been expressed with regards to the proposal to disregard historic losses for operational risk.

## **AOB**

The Commission services updated members and observers about the work on the delegated act on the liquidity coverage ratio.

## **Final remarks and closing of the meeting**

The Chair thanked the members for their inputs and the useful discussion and invited them to submit written comments by 12 October 2020. She indicated that a follow-up meeting would be scheduled for mid-November 2020, depending on how the work, including in particular the EBA's assessment, would progress.