



18 June 2010

CEBS'S PRESS RELEASE ON STATE OF PLAY WITH THE 2010 EU-WIDE STRESS TESTING EXERCISE

Supervisory authorities and central banks in the EU routinely conduct stress testing exercises in the context of their regular risk assessment of the banking sector and as a way to assess the risks facing individual institutions. In 2009 following the mandate received from the ECOFIN, CEBS in cooperation with the European Commission and the European Central Bank (ECB) conducted an EU-wide forward-looking stress test of the banking system, building on common guidelines and scenarios, for a sample of major European cross-border banking groups. The results of that exercise were reported to the October 2009 ECOFIN meeting and taken into consideration by the policy makers in assessing the resilience of the European financial system.

Following the discussion of the 2009 results, ECOFIN mandated CEBS to carry out a second EU-wide exercise¹ aimed at assessing, in addition to the overall resilience of the banking sector to shocks, also *"the dependence of EU banks on public support and on the amount of capital available for further lending in the context of exit strategies should be provided"*.

This exercise, which applies a set of commonly agreed macro-economic scenarios developed in close cooperation between CEBS, national supervisory authorities, the European Commission and the ECB, started in March 2010 and is currently being finalised.

The stress test addresses impacts of the macro-economic shocks on credit and market risk. It covers a sample of major cross-border banking groups in Europe, representing over 60% of the EU banking sector in terms of total assets.

The EU-wide stress test exercise is a "bottom-up" exercise, where commonly agreed scenarios and key assumptions have been applied to institutions' internal risk parameters and portfolios, with the aim at better assessing the specificities of institutions in the sample for the exercise.

It should be noted that a stress testing exercise provides estimates, based on what-if scenarios and on a number of critical assumptions, which are subject to many sources of uncertainty, including the sustainability of current banks' earnings, as well as macro-economic and market trends. Although the sample

¹ See: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/111706.pdf

ensures a significant coverage, the results of the stress test cannot necessarily be extrapolated to the whole EU banking system.

The European Council decided at its meeting on 17 June 2010 to publicly disclose the results of the ongoing stress tests by banking supervisors.²

CEBS is currently liaising with national authorities, responsible for the individual results of the banks in the sample, in order to prepare for the publication of stress testing results, as mentioned in the European Council's conclusions.

Background

The Committee of European Banking Supervisors (CEBS) is composed of high level representatives from the banking supervisory authorities and central banks of the European Union. CEBS's main tasks are to advise the Commission in the field of banking activities, to contribute to the consistent implementation of Community Directives and to the convergence of supervisory practices, and to enhance supervisory co-operation.

CEBS is also mandated to perform and provide, at least twice a year, assessments to the European Commission of micro-prudential trends, potential risks and vulnerabilities in the banking sector. These micro-prudential risk assessments are conducted in a bottom-up fashion and from a forward-looking perspective, based on the assessments of a sample of European cross-border banking groups carried out by the respective colleges of supervisors.

² See: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/115346.pdf