

ANNUAL REPORT 2019

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Abbreviations

AI/ML	artificial intelligence and machine learning	CSC	common and secure communication
AML	anti-money laundering	CVA	credit valuation adjustment
AML/CFT	anti-money laundering/countering the financing of terrorism	DGS	deposit guarantee scheme
API	application programming interface	EBA	European Banking Authority
ASA	alternative standardised approach	EBA IT	the EBA's IT unit
BCBS	Basel Committee on Banking Supervision	ECB	European Central Bank
BD&AA	big data and advanced analytics	EEA	European Economic Area
BIA	basic indicator approach	EFIF	European Forum for Innovation Facilitators
BRRD	Bank Recovery and Resolution Directive	EIOPA	European Insurance and Occupational Pensions Authority
BRRD 2	Bank Recovery and Resolution Directive 2	EMI	electronic money institution
CET1	Common Equity Tier 1	ESAs	European Supervisory Authorities
CI	credit institution	ESG	environmental, social and governance
COREP	common reporting	ESMA	European Securities and Markets Authority
CRD	Capital Requirements Directive	EU	European Union
CRD 4	previous version of the Capital Requirements Directive	EUCLID	European Centralised Infrastructure for Supervisory Data
CRD 5	Capital Requirements Directive 2	FAQ	frequently asked question
CRR	Capital Requirements Regulation	FBE	forborne exposure
CRR 2	Capital Requirements Regulation 2	FINREP	financial reporting
CRR 3	Capital Requirements Regulation 3	FinTech	financial technology

FRTB	Fundamental Review of the Trading Book	Q&A	question and answer
FX	foreign exchange	RAQ	risk assessment questionnaire
ICT	information and communications technology	RAR	risk assessment report
IFRS	International Financial Reporting Standards	RegTech	regulatory technology
IRB	internal ratings-based	RTS	regulatory technical standards
IT	information technology	RWA	risk-weighted asset
ITS	implementing technical standards	SA	standardised approach
LGD	loss given default	SA-CCR	standardised approach for counterparty credit risk
MIS	management information system	SCA	strong customer authentication
ML/TF	money laundering/terrorist financing	SFDR	Sustainability-Related Disclosures Regulation
MREL	minimum requirement for own funds and eligible liabilities	SFT	securities financing transaction
NPE	non-performing exposure	SMEs	small and medium-sized enterprises
NPL	non-performing loan	SREP	supervisory review and evaluation process
OJ	Official Journal of the European Union	SRT	significant risk transfer
PI	payment institution	SSM	Single Supervisory Mechanism
PLA	profit and loss attribution	STS	simple, transparent and standardised
PRIIP	packaged retail and insurance-based investment product	SupTech	supervisory technology
PSD 2	Payment Services Directive 2	TLAC	total loss-absorbing capacity
		UK	United Kingdom

Foreword by the Chairperson

It is a great honour for me to write my first foreword to the annual report. I would like to reflect on the key achievements of the Authority in 2019 as well as to highlight some of the opportunities and challenges that lie ahead of us.

Last May, I embarked on this role as Chairperson of the EBA in the midst of significant changes that continue to have an impact both on the EBA's internal organisation and on the banking sector as a whole. At that time, the EBA was finalising its relocation process from London to Paris, which was a direct consequence of the UK's withdrawal from the EU. I was among the first EBA employees to inaugurate our new premises in La Défense, at the Tour Europlaza.

I must say that I was positively surprised to see how smoothly the entire move to Paris went and how quickly the staff adapted and settled into the new environment and lifestyle. For that, I am truly proud of and thankful to all the staff for their attitude throughout this process. I am also deeply grateful to the French Government and to the local authorities for their collective and untiring support throughout this journey. The seamless and successful move would have not been possible without their help, advice and encouragement to our staff on a daily basis.

I am also very lucky to have inherited a strong and healthy organisation. Since its inception, the EBA has established its reputation, both at the European level but also globally, thanks to its technical expertise and unique contribution to strengthening the European banking sector, ultimately serving the public interest. The commitment, dedication and knowledge of our employees and the cooperation and input of our Members have been integral factors in the growth, success and reputation of the EBA.

A second important change in our leadership is the appointment of a new Executive Director. As of today, we are still pending the final confirmation but I am already looking forward to this appointment. The next Executive Director will provide new leadership and will be very important for the future day-to-day management of our organisation.

Despite the challenges and changes we faced, 2019 was also a year of many achievements for the EBA. Let me just highlight a subset of the most important ones. I would like to start with the work we have produced on the **implementation of the Basel III framework** in Europe. The new Basel standards agreed upon at international level are a fundamental tool to ensure that rules apply equally to all jurisdictions, preserve



JOSÉ MANUEL CAMPA

a level playing field and retain an open global banking market. This is why we have always been clear about our commitment to faithful implementation of these rules across the EU. We have provided evidence to the Commission for understanding the impact of the rules across the EU banking sector as well as policy recommendations to ensure that these rules are applied in a consistent manner in Europe. I am confident that the entry into effect (recently postponed by a year because of the current COVID-19 pandemic) and the long transition period for its full implementation will provide enough time for the orderly implementation of these rules in Europe.

Assessing risks and providing transparency to the financial community on the status of the European banking industry was another core priority in 2019. Through our annual transparency exercise, published in November 2019, we confirmed the stronger capital position of European banks and the steady decline in non-performing loans (NPLs). After many years of de-leveraging, we have also observed a recovery in lending. However, despite these improvements, the low profitability of EU banks remains a concern. Banks need to continue improving their business models, adapt to the new digital environment and invest in new technologies. Further enhancements to the cost-effectiveness of the banks and potential inorganic adjustments in capacity in parts of the European banking sector continue to be necessary.

The completion of the regulatory agenda following the **Risk Reduction Measures Package** adopted by the Council of the EU and the European Parliament on 20 May 2019 has been a key priority. We have received a large number of mandates from that regulatory package. We will be mainly focusing on the areas of large exposures, Pillar 2, supervisory reporting and

disclosure, governance and remuneration, and resolution. We have published a set of **roadmaps** outlining our approach and timelines for delivering on them.

Achieving a **common EU approach in digital finance** was another key objective of the EBA in 2019. We have made significant progress in removing obstacles to the application of innovative technologies in the banking and payments sectors, namely by working to achieve technological neutrality in our regulatory and supervisory approaches. We have also considered the risks stemming from financial innovation, and provided guidance to banks to strengthen governance in the areas of outsourcing to the cloud and ICT risk. We have also advised the European Commission on cybersecurity and on the applicability and suitability of EU law to crypto-assets.

In 2019, we published our **action plan on sustainable finance** outlining our approach and timeline for delivering mandates related to environmental, social and governance (ESG) factors. I highlight the urgent need to act now on sustainable finance. To this end, we have set out early expectations for interim measures, including the identification of simple metrics that can foster market discipline and allow banks to set clear green strategies.

Anti-money laundering (AML) has been an area of concern across the European Union and it has also become an increasingly important area for the EBA. The review of the EBA founding regulation has given us new powers and tasks. This will allow us to lead policy development, to coordinate and to monitor the efforts of national supervisors in order to strengthen AML practices across the single market. Internally, we will allocate more resources to this important task in the coming years.

The **review of the ESA's founding regulation** that took place in 2019 entered into force on 1 January 2020. This review has brought important changes, such as the new AML responsibilities I mentioned previously, and also new means for performing these tasks. We will set up an Advisory Committee on Proportionality to ensure respect for diversity and proportionality in our activity, particularly our regulatory and reporting products. We have also made other implementation efforts in the area of consumer protection. In addition, we have enhanced our transparency, accountability and governance, especially in the areas of conflict of interest and ensuring the transition to a gender-balanced organisation at all levels.

It was a year of big changes and of great achievements for the EBA. All of them have been possible thanks to the support and cooperation of our Member States and of EU institutions. It is also through the fruitful cooperation of all of these players that we have

contributed to a more resilient European banking system, with banks' internal governance and practices that foster proper risk management, and to a prudential and resolution framework that should supervise banks in normal and exceptional circumstances.

The start of 2020 has brought new and important challenges. The ongoing COVID-19 pandemic has tested economic resilience across the world. Fortunately, the European banking sector has been able to proactively contribute to absorbing the initial shock. It is still too early to assess the long-term implications of the current situation. Nevertheless, I am convinced that, although the way forward needs to focus on the short-term challenges, taking advantage of the regulatory framework that has been built over the last decade, we need to continue addressing banks' longer term challenges to ensure they will continue to properly perform their role in our society.

Interview with the Acting Executive Director



PETER MIHALIK

The year 2019 was rather challenging but at the same time successful for the EBA, which managed to relocate smoothly from London to Paris, its new seat. After almost a year since the move, what have been, in your opinion, the key ingredients that contributed to such a seamless transition? Is there anything that, with hindsight, you would have done differently?

It does not happen often that an EU institution has to relocate from one country to another. I think there were only two cases in the history of the EU prior to us. There is no manual for such undertaking, no best practices to follow, no readily available expertise, so we were learning along the way.

By far the most important ingredients were excellent teamwork and a high degree of commitment of all colleagues involved. I would like to express my thanks and gratitude for exemplary dedication they have demonstrated throughout the whole process. I am very proud of all of them.

We are also very grateful to the French authorities, who provided us with support and valuable advice throughout the whole process, for example by having dedicated staff from Choose Paris Region who were located on our premises to provide advice to all our staff on a wide range of matters related to settling and living in Paris.

In terms of lessons learned, we could have done a better job in communicating the progress and the work ahead to our staff. I think the approach of having relatively infrequent communication with our people, limited only to times when we had more certainty on the next steps, was not necessarily the best one. I have come to understand that there is no such thing as too much communication. I believe that lately we are getting better at both the frequency and the content of communication from the management to all staff, and the experience of the move helped in the process.

The whole team was pretty much composed of our own staff; we only had a couple of externals to provide support. This work was hence done on top of the existing duties of every one of us, which made it even more challenging. The whole team deserves praise for this. But should I do it again, which I hope will not be needed, I would fight much harder to establish and be able to have a dedicated team for this type of complex programme.

The relocation process has not happened overnight and is indeed the result of a readiness plan that you put in place to ensure the Authority could maintain its business continuity should the unexpected occur. Throughout the long relocation process, have you experienced anything that you had not considered in your plan and how have you coped with unexpected developments?

This is a very good question. The journey from London to Paris was full of surprises and unexpected turns. There were many unforeseen challenges, such as the building selection. We initially started it on our own but, following the European Parliament's request, we invested a lot of effort to align with ESMA's similar initiative and conducted joint market prospecting as well as defining common evaluation criteria, just to end up selecting the building on our own due to various factors beyond our and ESMA's control.

Another challenge was the lengthy process of approving the EBA's seat change in our Founding Regulation. It took almost a year after the decision on the EBA's new seat, and this was something that none of us had expected. It had a cascading effect on a number of activities on the critical path. For example, until this legislative change happened, we were not in a position to sign a new lease contract with a landlord in Paris, which put all the subsequent deadlines related to the fitout, IT infrastructure, setup and physical move at risk. Eventually, thanks to excellent teamwork and a can-do attitude, we managed to find a good way forward, which allowed us to meet the originally communicated deadline of moving out of London by the end of May 2019.

There were numerous obstacles along the way for which we had not planned, but the team remained amazing throughout – they were all highly adaptable and fast in coming up with alternative solutions.

This relocation programme was a nice example of the fact that even in the absence of relevant experience (and there are not many people who have done something similar) one can achieve seemingly impossible tasks. I hope it helped everyone involved to boost their confidence in their own capabilities and acknowledge that, if there is a will, there is always a way.

The lack of French language knowledge was also a challenge when liaising with local companies. On the other hand, some of our colleagues went through a very steep learning curve and, as much as it must have been painful for them at the time, they have a decent command of the French language by now.

Another lesson learned is related to the implementation of electronic workflow, which was necessary to enable the transition from London to Paris without any interruptions of a number of existing processes, but, unfortunately, it is not future proof. It served its purpose to ensure continuity of our operations but it has not lived up to our expectations and I take full responsibility for its shortcomings. Although it was not a clear success, we have learned a lot from it.

Making a mistake or experiencing a failure can be a very useful and sobering experience. It is what makes us grow, what makes us more competent over time. So, rather than being cast down by 'failures' during the EBA

relocation, we have embraced them and have learned a great deal from them. This is what in my view makes the good team great.

Accompanying the staff through the relocation process has probably been one of the key challenges you had to face. What are the steps you took to keep the staff motivated and committed at all times? Have you experienced any significant turnover since the relocation announcement?

I try to follow three key principles in the way I manage:

1. *Select those who are better than I am in any given field/area of competence.* This is the case with all my current direct reports and it allows us to deliver what I would have never be able to do purely on my own.
2. *Set the direction and empower people to work autonomously.* Highly qualified and dedicated people, which the EBA staff indeed are, do not need to be micromanaged and in the vast majority of cases they reward the trust given with an outstanding result.
3. *Remove the obstacles the team is facing and take accountability for their mistakes.* My role is to enable people to excel, by helping to remove obstacles coming their way and by taking responsibility vis-à-vis external stakeholders for their honest mistakes. I own their mistakes, they get the recognition. I get great deal of satisfaction from seeing my team flourish.

I hope all this helps to create a working environment that strengthens motivation among colleagues and fosters their commitment.

In terms of staff turnaround, based on limited empirical evidence we did not really know what the impact of the move from London to Paris would be. Clearly, the place of employment plays an important role in one's decision to apply for a job at EBA, and London was surely such an important factor.

So, as a working assumption we expected an overall turnover of approximately 25%. To mitigate the risk of significant loss of staff, we launched a number of vacancy notices to build reserve lists. These reserve lists were focused mainly on core business activities.

The final turnover figure was below 10%, which in my view is very good. It is a good figure even during normal times. The low turnover helped us to ensure business continuity throughout the whole period. Nevertheless, the reserve lists did not come in vain and we have been able to draw from them ever since.

At the end of 2019, you also took on another important and rewarding role as Acting Executive Director of the Authority. How has your working life changed? What are your main tasks and responsibilities directly related to your new role?

I am humbled and honoured to have been entrusted by our Board of Supervisors to lead the EBA during this transitional phase until a new Executive Director takes up this role.

However, it is important to mention that our Chairperson, Jose Manuel, kindly agreed to oversee all policy-related work, which would otherwise be done by the Executive Director, so this makes my workload less daunting or overwhelming. Still, I somewhat underesti-

mated the depth and breadth of work that this role entails. It is a challenge, especially since I keep my existing duties of managing the Operations department, but my colleagues in the department have been very helpful and supportive, for which I am very thankful.

The role of Executive Director comes with a lot of duties that I was not fully exposed to before, such as very intensive liaison with a number of external stakeholders, more frequent communication with all staff, e.g. in townhalls, or managing the overall establishment plan.

Towards the end of the year, we conducted the EBA's staff engagement survey, which helped us to identify a number of areas for improvement, and it is my duty to define and implement, together with the EBA management team, a concrete action plan that will address them.

Personally, I find all this additional work very stimulating and rewarding. I learn new things every single day and do my best to live up to the expectations.

I hope to hand over the agency to the new Executive Director in good shape and well prepared for taking it to the next level.



EBA publications and decisions in 2019

CP	consultation paper
DE	decision
GL	guidelines
ITS	implementing technical standards
O	other
OP	opinion
REC	recommendation
REP	report
RTS	regulatory technical standards

JANUARY	
REP	The European Supervisory Authorities (ESAs) publish a joint report on regulatory sandboxes and innovation hubs
O	The EBA publishes an updated risk dashboard with data from Q3 2018
REP	The EBA publishes a report on crypto-assets
O	The EBA publishes its annual assessment of the consistency of internal model outcomes
REP	The EBA publishes a report on the cost and performance of structured deposits
O	The ESAs publish a multilateral agreement on the exchange of information between the European Central Bank and anti-money laundering/countering the financing of terrorism (AML/CFT) competent authorities
GL	The EBA publishes final guidelines on the specification of types of exposures to be associated with high risk under the Capital Requirements Regulation (CRR)
ITS	The EBA publishes an updated list of closely correlated currencies
FEBRUARY	
REC	The ESAs publish recommendations on changes to the key information document on packaged retail and insurance-based investment products (PRIIPs)
REP	The EBA publishes its consumer trend report for 2018–19
O	The EBA publishes a handbook on valuation for purposes of resolution
CP	The EBA consults on credit risk mitigation for institutions applying the internal ratings-based (IRB) approach with own estimates of loss given default (LGD)
GL	The EBA publishes revised guidelines on outsourcing arrangements
MARCH	
OP	The EBA publishes an opinion on deposit protection issues stemming from the withdrawal of the UK from the EU
CP	The EBA consults on harmonised definitions and templates for funding plans of credit institutions
GL	The EBA publishes final guidelines on the estimation of LGD under an economic downturn
O	The EBA publishes a revised list of validation rules
O	The ESAs publish a letter to the European Commission on draft RTS to amend the delegated regulation covering the rules for the key information document on PRIIPs
O	The EBA publishes clarifications on the first set of issues raised by its Working Group on Application Programming Interfaces (APIs) under the revised Payment Services Directive (PSD 2)
REP	The EBA publishes a report on high earners
DE	The ESAs publish their Joint Board of Appeal's decisions on four appeals under the Credit Rating Agencies Regulation
REP	The EBA publishes a report on convergence of supervisory practices
O	The EBA launches its central register of payment and electronic money (e-money) institutions under PSD 2
O	The EBA publishes an updated list of other systemically important institutions
O	The EBA publishes updated methodological guidance on risk indicators and analysis tools
REP	The EBA publishes a report on Basel III capital monitoring

REP	The EBA publishes a report on liquidity measures
O	The EBA publishes an updated risk dashboard with data from Q4 2018
APRIL	
O	The EBA publishes clarifications on the second set of issues raised by its Working Group on APIs under PSD 2
REP	The ESAs publish a joint report on risks and vulnerabilities in the EU financial system
RTS	The EBA publishes final draft RTS on the conditions to allow institutions to calculate capital requirements in relation to securitised exposures (Kirb) in accordance with the purchased receivables approach
REP	The ESAs publish their Joint Committee's 2018 annual report
O	The ESAs publish joint advice on the need for legislative improvements relating to information and communications technology (ICT) risk management requirements
O	The ESAs publish joint advice on the costs and benefits of a coherent cyber-resilience testing framework for significant market participants and infrastructures
O	The EBA publishes an updated list of diversified indices
OP	The EBA publishes an opinion on the nature of passport notifications for agents and distributors of e-money
O	The EBA publishes clarifications on a third set of issues raised by its Working Group on APIs under PSD 2
REP	The EBA publishes a report on the functioning of supervisory colleges in 2018
MAY	
CP	The EBA consults on technical standards on the standardised approach for counterparty credit risk
ITS	The ESAs publish amended ITS on the mapping of external credit assessment institutions' credit assessments under the CRR
OP	The EBA publishes an opinion on third-country equivalence (Argentina)
CP	The ESAs consult on draft ITS on the reporting of intra-group transactions and risk concentration for financial conglomerates
ITS	The EBA publishes amended ITS on supervisory and resolution reporting for EU institutions and the corresponding data point model and XBRL taxonomy 2.9
REP	The EBA publishes its 2018 annual report
JUNE	
O	The EBA publishes updated data on deposit guarantee schemes across the EU
CP	The EBA consults on loan origination and monitoring
OP	The EBA publishes an opinion on the elements of strong customer authentication (SCA) under PSD 2
O	The EBA publishes the 2020 EU-wide stress test methodology for discussion
O	The EBA publishes a roadmap for the new market and counterparty credit risk approaches
JULY	
O	The EBA publishes an updated risk dashboard with data from Q1 2019
REP	The EBA publishes a report on the implementation of the its guidelines on product oversight and governance arrangements
REP	The EBA publishes a thematic report on the impact of FinTech on payment institutions' and e-money institutions' business models
REP	The EBA publishes a report on the progress made on its roadmap on repairing IRB models
REP	The ESAs publish a report on cross-border supervision of financial services
REP	The EBA publishes a report on the monitoring of liquidity coverage ratio implementation in the EU
ITS	The EBA publishes amended ITS on supervisory reporting with regard to financial information (FINREP)
ITS	The EBA publishes an updated ITS package for the 2020 benchmarking exercise
REP	The EBA publishes a report on regulatory perimeter, regulatory status and authorisation approaches in relation to FinTech activities
O	The EBA publishes an updated list of Common Equity Tier 1 (CET1) instruments of EU institutions

CP	consultation paper
DE	decision
GL	guidelines
ITS	implementing technical standards
O	other
OP	opinion
REC	recommendation
REP	report
RTS	regulatory technical standards

O	The EBA publishes its roadmaps on International Financial Reporting Standard (IFRS) 9 deliverables and launches an IFRS 9 benchmarking exercise
OP	The EBA publishes an opinion on communication of money laundering/terrorist financing (ML/TF) risks to supervised entities
O	The EBA publishes clarifications on the fourth set of issues raised by its Working Group on APIs under PSD 2
OP	The EBA publishes an opinion on measures to address macroprudential risk following a notification by the Finnish Financial Supervisory Authority
O	The EBA publishes a letter in response to the European Commission on the Estonian Central Bank's proposed measures to address macroprudential risk
CP	The EBA consults on the methodology to determine the weighted average maturity of contractual payments due under the tranche of a securitisation transaction

AUGUST

OP	The EBA publishes its advice in reply to the European Commission's call for advice on Basel III implementation in the EU
O	The EBA publishes its feedback on a review of the use, usefulness and implementation of the Single Rulebook Q&A
OP	The EBA publishes an opinion on the implementation of the Deposit Guarantee Schemes Directive
O	The EBA publishes updated data used for the identification of global systemically important institutions
O	The EBA publishes clarifications on the fifth set of issues raised by its Working Group on APIs under PSD 2
O	The EBA publishes phase 2 of its technical package on reporting framework 2.9
REP	The EBA publishes a report on funding plans
REP	The EBA publishes a report on asset encumbrance

SEPTEMBER

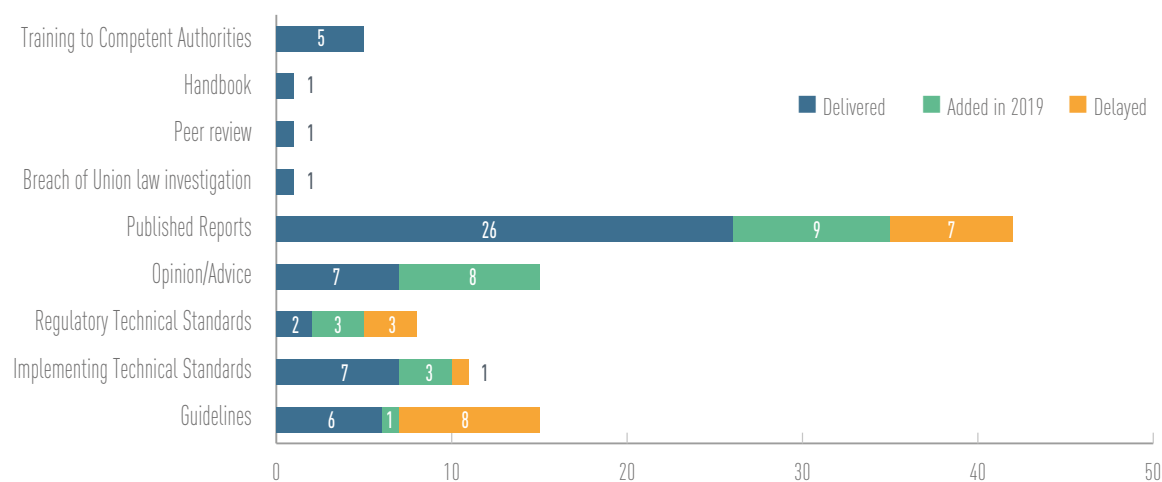
O	The EBA publishes a revised list of validation rules
REP	The ESAs publish a report on risks and vulnerabilities in the EU financial system
O	The EBA launches its 2019 EU-wide transparency exercise
CP	The EBA consults on its proposals to create a simple, transparent and standardised framework for synthetic securitisation

OCTOBER

REP	The ESAs publish their Joint Committee's work programme for 2020
REP	The EBA publishes a report on Basel III capital monitoring
REP	The EBA publishes a report on liquidity measures under Article 509(1) of the CRR
OP	The ESAs publish an opinion on the ML/TF risks affecting the EU's financial sector
O	The EBA publishes an updated risk dashboard with data from Q2 2019
DE	The ESAs publish a decision on the appeal by the credit rating agency Creditreform AG against the EBA
O	The EBA publishes a communication on the UK's withdrawal from the EU
O	The EBA publishes its work programme for 2020
CP	The ESAs consult on changes to the key information document on PRIIPs
OP	The EBA publishes an opinion on the deadline for migration to SCA for e-commerce card-based payment transactions
CP	The EBA consults on guidelines on the application of the structural foreign exchange provision
CP	The EBA consults on revised ITS on supervisory reporting
OP	The EBA publishes an opinion on disclosure to consumers of banking services through digital means
OP	The EBA publishes an opinion on the regulatory treatment of non-performing exposure securitisations
O	The ESAs publish a statement on consistent application of the PRIIP Regulation to bonds

REP	The EBA publishes a report on potential impediments to the cross-border provision of banking and payment services
OP	The EBA publishes an opinion on the implementation of the Deposit Guarantee Schemes Directive
NOVEMBER	
O	The EBA publishes the 2020 EU-wide stress test methodology and draft templates
REP	The EBA publishes a report on non-performing loans
O	The EBA publishes a technical package on reporting framework 2.9.1
CP	The EBA consults on draft RTS and ITS on passport notifications
CP	The EBA consults on specific supervisory reporting requirements for market risk
O	The EBA publishes risk reduction package roadmaps
CP	The EBA consults on disclosure and reporting of the minimum requirement for own funds and eligible liabilities and total loss-absorbing capacity
GL	The EBA publishes guidelines on ICT and security risk management
REP	The EBA publishes its annual risk assessment report
DECEMBER	
OP	The EBA publishes further advice in reply to the European Commission's call for advice on Basel III implementation in the EU
RTS	The ESAs publish final draft RTS under the European Market Infrastructure Regulation on various amendments to the bilateral margin requirements in view of the international framework
O	The EBA publishes its action plan on sustainable finance
GL	The EBA publishes updated guidelines on harmonised definitions and templates for the funding plans of credit institutions
O	The EBA publishes a revised list of validation rules
CP	The EBA consults on draft ITS amending the Benchmarking of Internal Models Regulation
GL	The ESAs publish guidelines on cooperation and information exchange for AML/CFT supervisory purposes
O	The EBA publishes the 2020 EU-wide stress test templates after testing them with banks
RTS	The EBA publishes final draft RTS on the standardised approach for counterparty credit risk
REP	The EBA publishes a report on undue short-term pressure from the financial sector on corporations
CP	The EBA consults on draft revised RTS on revised identified staff for remuneration purposes
O	The EBA publishes an updated CET1 list for Q4 2019

Figure 1: Overview of regulatory products delivered against the EBA work programme for 2019



ENHANCING REGULATION AND SUPERVISION

Preparing for the implementation of Basel III in the EU

Background

Global prudential standards are key to ensuring a level playing field for internationally active banks. Their implementation in the EU must be faithful, proportionate and mindful of the specificities of the EU banking market.

The EBA's tasks include assessing ex ante the impact of policy proposals on EU institutions and providing advice on the specification of prudential policy in the EU banking sector. In this context, on 4 May 2018, the EBA received from the European Commission a call for advice on the implementation of the Basel III post-crisis reforms, the main aim of which is to reduce excessive variability of risk-weighted assets (RWAs) and improve the comparability

of banks' capital ratios across jurisdictions. The Basel III post-crisis reforms were finalised by the Basel Committee on Banking Supervision (BCBS) in December 2017.

In addition, further advice was requested from the EBA on the implementation of the revised framework for market risk – i.e. the Fundamental Review of the Trading Book (FRTB) – in the EU.

As a response to the call received from the Commission, the EBA prepared an advice on the implementation of Basel III in the EU. The EBA's advice was structured in two parts, consistently with the different timelines for producing the advice specified in the call, to take into account international developments that were ongoing in the area of market risk.

The first part of the EBA's advice was published on 5 August 2019 and included a specific policy assessment of the revised Basel framework in the area of credit risk, securities financing transactions (SFTs), operational risk and the output floor. The second part was published on 4 December 2019 and included a policy assessment of the revised frameworks for credit valuation adjustment (CVA) risk and market risk, and a macroeconomic impact assessment of the Basel III reforms.



Assessing the impact of Basel III on banks and the economy

To fulfil the request from the European Commission, the EBA launched a data collection and a qualitative survey to gather all the relevant data and information needed. A total of 189 banks from 19 EU countries participated in this assessment.

The EBA's analysis showed that by 2027 – the date for full implementation of the reform ⁽¹⁾ – EU banks will be required to hold 23.6% more Tier 1 capital than in June 2018.

⁽¹⁾ On 27 March 2020, the BCBS announced the deferral of Basel III implementation to 1 January 2023. It also announced the extension by 1 year of the accompanying transitional arrangements for the output floor.

In cooperation with the European Central Bank (ECB), the EBA also conducted an assessment of the costs and benefits of the reforms for the wider economy. According to simulations carried out using an ECB macroeconomic model, the implementation of the reforms will result in moderate transitional costs. On the other hand, Basel III will generate substantial long-term benefits as a result of the lower probability of severe economic recessions. These benefits clearly outweigh the costs.

The EBA subsequently received follow-up requests for more detailed analyses of the impact of Basel III. The EBA conducted an additional data collection and the results of the analysis were published in March 2020.



MARINA CERNOV
Senior Policy Expert



QUANTITATIVE IMPACT ASSESSMENT

The final Basel III standards are the new global rules for banks to follow to measure how much capital they need to hold. The new standards aim to make banks more resilient and restore confidence in banking systems. The application of these rules in the EU is important, as it will ensure that banks are adequately capitalised and will also ensure the credibility of the EU at the Basel table.

I worked on assessing the quantitative impact of the new rules on EU banks' capital requirements. It was a very interesting exercise, as it required a broad view of banks' balance sheets to be able to assess the impact of all the regulatory changes, as well as of each risk component separately.

We worked in a great team, each one of us with a different background, which allowed us to learn from and help each other.

Together, we delivered a robust impact assessment that can confidently be used by policy-makers and legislators to make informed decisions. For example, the results were used by our colleagues from the policy area to make policy recommendations on each of the areas covered by the new Basel III standards.



Advising on the implementation of Basel III in the EU

Background

The EBA's advice on the implementation of Basel III was structured in two parts, consistently with the different timelines for producing the advice specified in the call, to take into account international developments that were ongoing in the area of market risk.

The assessments provided by the EBA are intended to be fed into the Commission's legislative proposal for implementing Basel III in the EU.

Throughout its advice, the EBA devoted particular attention to areas where specific European arrangements may exist, providing a detailed analysis of business models and proportionality.

For each of the areas covered in the advice, the EBA had to consider the objectives of the various measures and describe and assess the implementation issues that might arise.

The EBA's advice on the Basel III reforms on credit risk, SFTs, operational risk and the output floor

The standardised and internal ratings-based approaches to credit risk

When delivering its opinion regarding the implementation of the final Basel III framework for credit risk, the EBA considered carefully both the implications of individual reforms and the impact of full implementation on EU banks. The EBA found that, overall, the Basel III credit risk framework is suitable for implementation in the EU, especially as many of the changes in the framework take into consideration several existing EU practices. Moreover, the EBA has drawn on the work undertaken to clarify the credit risk framework since the implementation of Regulation (EU) No 575/2013 (the Capital Requirements Regulation (CRR)) in 2014. Overall, the report makes 94 policy recommendations relating to credit risk: 39 policy recommendations specifically relevant to the standardised approach (SA); 48 policy recommendations on the internal ratings-

based (IRB) approach; and 7 policy recommendations applicable to both the SA and the IRB approach.

In relation to the SA for credit risk, the EBA analysed the changes to certain risk weight calibration methodologies, as well as the introduction of new sub-classes of exposure. Cognisant of the fact that, under the SA, there is a constant trade-off between simplicity and risk sensitivity, the EBA noted that these amended provisions do not come without challenges and might need further revisions to ensure a balanced outcome.

As the IRB approach is the more sophisticated and more risk sensitive of the approaches, the analysis took into account the incentives for institutions to use internal models. The considerations regarding the Basel III reforms and the current CRR provisions aimed, among other objectives, to ensure sufficient comparability and adequate levels of own funds requirements, especially where these levels are based on institutions' own estimates of risk parameters.

Securities financing transactions

In the area of counterparty credit risk, the EBA provided advice on the implementation of the Basel III post-crisis reforms on SFTs; these reforms are intended to introduce new rules for the calculation of the exposure values of these transactions.

These rules include the minimum haircut floors framework for SFTs, which was included in the Basel III post-crisis reforms following a recommendation from the Financial Stability Board to incorporate numerical haircut floors and review the capital treatment for non-centrally cleared SFTs in which banks and broker-dealers provide financing to non-banks against collateral other than government securities.

Following its assessment, the EBA supported the implementation of the Basel revisions in the EU, with the exception, however, of the minimum haircut floors framework for SFTs, with regard to which the EBA believed that further analysis was needed.

The output floor

The output floor requires that the capital requirements for institutions that apply internal modelling approach do not fall below 72.5% of the capital requirements that would be calculated under the SA. The output floor will underpin the significant efforts made by the EU and competent authorities to ensure the continued use of internal models and initiatives to ensure harmonised implementation (e.g. the EBA's efforts on IRB regulatory repair, its efforts on internal model benchmarking and the targeted review of internal models exercises in the Single Supervisory Mechanism (SSM)).

The EBA, with the help of analysis of its quantitative impact study, observed that the output floor calibrated by the Basel Committee appears to be effective in meeting its objectives for EU banks. First, it will lead to reduced variability in risk weights, addressing the perception that risk weights calculated by institutions using internal modelling may, in some cases, deviate too much from those calculated under the SA. Second, the output floor will increase the comparability of risk-weighted ratios, with the capital ratios of internal modelling institutions becoming more comparable with those of banks under the SA.

Nevertheless, the EBA evaluated the mechanics of the floor and considered different of implementation approaches. In particular questions also arose regarding the interaction of the output floor with other parts of the framework, such as Pillar 2. In particular, capital requirements determined through the supervisory review and evaluation process (SREP) may need to be reduced when RWAs increase as a result of the output floor. In this regard, the EBA considers it possible that, for some banks, some part of the current SREP requirements would already be covered by the impact of the output floor. For example, SREP add-ons that address credit, counterparty, concentration or market risk may, to some extent, be addressed by the output floor in the future. This will be the case in particular where these SREP add-ons are currently required to compensate for deficiencies in the measurement of these some risks elements under Pillar 1 due to the use of internal models.

Questions also arose regarding the level of application of the output floor. On the 15th of July 2019, the Commission asked the EBA to conduct a quantitative assessment of the

The EBA will continue work to address such aspects of implementation, for example in the context of its SREP guidelines.

impacts resulting from the application of the output floor at all levels. This EBA has launched impact studies on this issue in 2019 and published an additional impact analysis in March 2020.

Operational risk

In accordance with the final Basel III package, the current approaches to operational risk – the basic indicator approach (BIA), the standardised approach (TSA), the alternative standardised approach (ASA) and the advanced measurement approach – will be replaced by a new standardised approach (SA). The European Commission's call for advice asked the EBA to provide an opinion on the quantitative impact and the technical implementation of the framework proposed by the BCBS.

The new SA contrasts with the current simpler approaches (BIA, TSA and ASA) in that it introduces the size of a bank's business as a risk driver and also requires larger banks to take into consideration the institution's own loss experience. This approach aims to include further risk sensitivity in the calculation of the capital charge, based on observed loss data.

In developing its policy recommendations in response to the European Commission's call for advice, the EBA considered the appropriateness of the SA for the EU banking sector by



analysing it from several angles and in relation to the whole spectrum of credit institutions. An impact analysis provided insights into the allocation of the capital requirements that would be imposed by the new framework in comparison with the current requirements on operational risk. This was considered not only in terms of banks' size but also on the basis of specific banks' characteristics, such as their business models. The performance of the SA was analysed using several statistical methods with the aim of assessing the predictive power

of historical losses with regard to operational risk exposure. Furthermore, various supervisory or jurisdiction-wide discretions under the proposed SA were reviewed from quantitative and qualitative points of view. The EBA took into account the operational burden related to the implementation of the new framework, in particular for smaller banks. The policy advice on the Basel III reforms on operational risk includes 23 recommendations on operational and qualitative aspects and 13 recommendations on technical and quantitative aspects.



RUXANDRA POPESCU

Policy Expert



POLICY RECOMMENDATIONS

As part of the team that covered the credit risk area, I contributed to the policy discussions, mainly in the area of the SA. This contribution ranged from providing input to the development of the templates for the data collection, for the data analysis stage, to working on the corresponding policy report on credit risk.

This report makes a total of 94 policy recommendations relating to credit risk, which reflects the importance of this topic for the banking sector, as it is intimately connected to the most traditional aspects of banking. Moreover, the final Basel III reforms will bring about significant changes to the credit risk framework. First, concerns about undue variability in own funds requirements stemming from banks using IRB models led the Basel Committee to introduce constraints on the IRB approach. Second, given the concerns about IRB models, the SA was also improved to embed additional risk sensitivity, thus providing an alternative to IRB modelling. The recommendations therefore cover the full final Basel III credit risk framework in significant detail, and the EBA is confident that, if these recommendations are implemented, the EU can retain a credible and risk-sensitive framework.

The work carried out in the context of the call for advice and the credit risk policy report required extensive cooperation across teams at the EBA, as well as discussions at a technical level involving several working groups focusing on specific elements touching on the credit risk topic. Thus, it provided a fertile ground for acknowledging and analysing the interconnectedness of policy decisions across areas, as well as giving rise to a significant amount of communication and collaboration with colleagues all around Europe. My participation in this project not only allowed me to improve on a professional level but also increased my awareness of the part I play in the EBA team and the support that colleagues offer one another when trying to achieve a goal as ambitious as delivering on a project such as the Basel III call for advice.



The EBA's advice on the Basel III reforms on CVA risk and market risk

In its advice on the implementation of the Basel III post-crisis reforms, the EBA also assessed, and put forward policy recommendations on, the revised CVA risk and market risk frameworks.

The advice on CVA risk covered most notably the definition of the scope of transactions to be subject to capital requirements for CVA risk, the specification of the simplified approaches for CVA risk and the eligibility of institutions with limited exposures to CVA risk to use them for proportionality purposes, and targeted policy considerations and proposals related to the implementation of more specific elements of the CVA risk framework, such as rules for the calculation of regulatory CVA and for the recognition of CVA hedges under the SA for CVA. To inform its assessment, the EBA used a data collection run in the second half of 2018 and a qualitative questionnaire completed by around 190 banks until early 2019.

With regard to the scope of transactions to be subject to capital requirements for CVA risk, the EBA recommended that the CVA risk generated by the EU transactions currently exempted from CVA risk capital requirements should be captured prudentially, as this risk can be substantial. This will also allow alignment with international standards on CVA risk and adherence to a risk-based capital requirements framework. With respect to the simplified treatment of CVA risk, the EBA recommended that it should be based on the proportionality framework for counterparty credit risk already set out in CRR 2 and that its use should be allowed for firms eligible to employ the simplified standardised approach for counterparty credit risk (SA-CCR) under

CRR 2. Finally, with regard to other elements of the framework, while putting forward targeted analyses and considerations, the EBA's advice has been mindful of ongoing international developments on CVA risk, namely the issuance on 28 November 2019 of a BCBS consultative document on targeted revisions to the CVA risk framework.

With regard to market risk, the EBA's advice supported the use of the recalibrated Basel II SA to market risk as a simplified SA for institutions with limited exposures to market risk. In addition, the EBA put forward targeted policy recommendations on specific elements of the revised market risk framework, as implemented in the CRR/CRR 2, to address specific issues that had been identified. The advice on market risk was informed by a data collection exercise and a qualitative questionnaire completed by banks in the first half of 2019, which were based on the FRTB standards as finalised by the BCBS in January 2019.

The EBA's advice should support the European Commission's implementation of the Basel reforms in the EU, which is intended to take place through the CRR 3 legislative proposal. With regard to market risk in particular, and considering the EBA's impact assessment on the introduction of the FRTB in the EU, the advice should also support the development of the legislative proposal by the European Commission to turn the reporting requirement for market risk envisaged in CRR 2 into a fully fledged capital requirement.

In this context, the EBA continues to support the full implementation of the final Basel III standards, which will contribute to the credibility of the EU banking sector and ensure a well-functioning global banking market.



DAVIDE VANZETTO

Policy Expert



ADVISING ON THE EU IMPLEMENTATION OF THE REVISED FRAMEWORKS FOR SFTs, CVA RISK AND MARKET RISK

I worked on the part of the advice related to the implementation of the new regime for SFTs, CVA risk and market risk. The project spanned more than one and half years. It required careful planning from the point when we received the call for advice in May 2018, interaction with many stakeholders, assessments and discussions of relevant policy issues, and careful consideration of the impact of the reforms, in terms of capital increases, but also in terms of robustness of the framework – often involving elements that are very controversial.

I mainly worked on the preparation of the policy discussions and the drafting and preparation of the policy reports. It was a complex task, which I found very interesting yet also challenging, given the need to go into detail about several technical aspects while at the same time keeping in mind how to practically implement the new framework. On top of this, the EBA's move in June 2019 from London to Paris represented a further challenge along the way.

The advice will support EU legislators' implementation of the Basel III reforms and the FRTB in the EU, which are intended to provide a regulatory foundation for a resilient banking system, while also being proportionate and mindful of the specificities of the EU banking market. Contributing to the achievement of these goals has been very rewarding, both because of the overall dimension of developing a sound framework and because it represented many technical challenges that required discussions internally at the EBA and with national authorities.

The EBA's advice is also supposed to complement, and is closely interlinked with, other deliverables that we have been developing in the area of counterparty credit risk, CVA risk and market risk. For example, the advice on market risk complements the advice that we issued in November 2016, by considering the FRTB standards as finalised in January 2019, and it represents an element of the EBA roadmap for the new market and counterparty credit risk approaches. Similarly, the advice on CVA risk builds on, among other things, the EBA report on CVA that we issued in February 2015. At the same time, the interaction with the ongoing Basel developments on CVA risk and market risk was a key aspect to consider throughout the process of developing our advice. The variety of the topics and the need to always be on top of the latest regulatory developments make working in this area interesting and dynamic. It is also enriching thanks to the interaction with the industry and the close collaboration with EBA colleagues and the competent authorities.



Preparing for the application of major new items of EU legislation



MARCO GIOVANNI CROTTI

Policy Expert



IMPLEMENTING KEY REGULATORY ELEMENTS OF THE FRTB AND SA-CCR IN THE EU

In 2019, the EBA published its roadmap on the new market and counterparty credit risk approaches. The roadmap provided a comprehensive overview of EBA deliverables in the area of market and counterparty credit risk and outlined the EBA's intentions with a view to ensuring the smooth implementation of the new approaches in the EU. In particular, the roadmap reflects the prioritisation of the EBA's work in four phases, broadly in line with the deadlines included in CRR 2, starting with the implementation of the essential parts of the framework.

In May 2019, the EBA launched a consultation on four draft regulatory technical standards (RTS) on the SA-CCR. They were then finalised and published in December 2019. Those RTS set out the method for identifying the material risk drivers of derivative transactions on the basis of which the mapping to one or more of the risk categories is to be done. In addition, they set out the formula that institutions are to use to calculate the supervisory delta of options, when mapped to the interest rate risk category, which is compatible with negative interest rates. Finally, they introduce a method suitable for determining the direction of the position in a material risk driver.

In June 2019, the EBA launched a consultation on 11 draft RTS on the new internal model approach under the FRTB standards. These standards represent an important contribution to the smooth and harmonised implementation of the FRTB in the EU. The package included:

(i) the draft RTS on liquidity horizons for the internal model approach, which specify how institutions should map risk factors to risk factor categories and subcategories, the currencies that constitute the most liquid currencies for interest rate risk, the currency pairs that constitute the most liquid pairs for foreign exchange (FX) risk and the definition of a small and a large capitalisation for equities;

(ii) the draft RTS on back-testing and profit and loss attribution (PLA) requirements, which specify the technical elements that institutions should consider when calculating the hypothetical, actual and risk-theoretical changes in the relevant portfolio's value for the purpose of back-testing and the PLA test, as well as the criteria for ensuring that the risk-theoretical change is sufficiently close to the hypothetical change, the consequences for institutions with desks showing misalignments between the risk-theoretical and hypothetical changes, the frequency with which the PLA tests should be performed and the formula to be used when aggregating own funds requirements for market risk for reporting purposes;

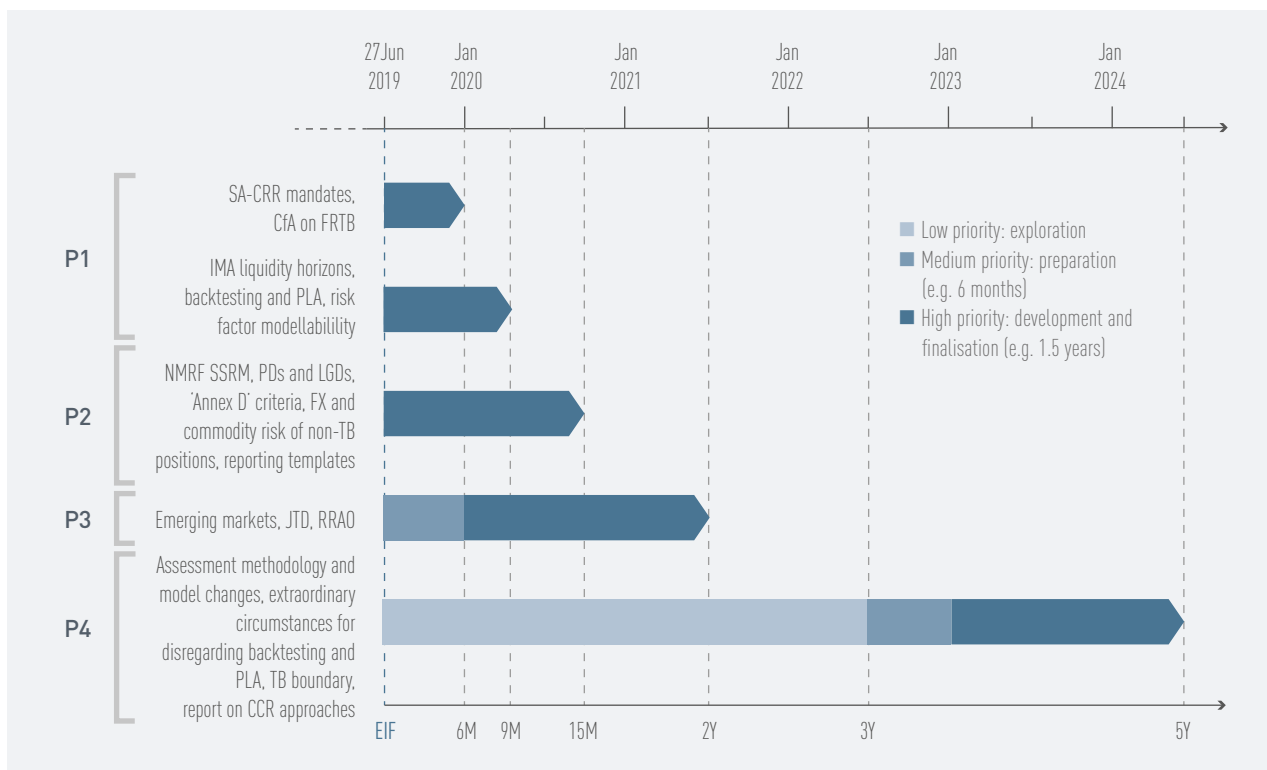
(iii) the draft RTS on the criteria for assessing the modellability of risk factors under the internal model approach, which set out how institutions should determine whether a risk factor is modelable or not, and the frequency of the assessment.

In June 2019, the EBA also launched a data collection exercise on non-modellable risk factors, to support the fine-tuning and calibration of the methodology presented in a discussion paper in 2017 with respect to the computation under the internal model approach of the capital charge corresponding to risk factors that have been identified as non-modellable.

Finally, in October 2019, the EBA launched a consultation on guidelines on the application of the structural FX provision. Those guidelines aim to establish a regulatory framework on structural FX as a response to the observed diversity in its application across the EU. In particular, they identify criteria to assist competent authorities in their assessment of the structural nature of an FX position and if such a position has been deliberately taken to hedge the capital ratio.



Figure 2: Provisional timeline for CRR 2 deliverables on market risk and counterparty credit risk, based on CRR 2 deadlines



Strengthening the common EU framework for securitisation with an emphasis on simplicity, transparency and standardisation

In January 2019, the three European Supervisory Authorities (ESAs), namely the EBA, the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA) established a Securitisation Committee under the Joint Committee to ensure cross-sectoral supervisory consistency on the application of the EU securitisation framework. Composed of representatives of the ESAs, the national competent authorities, the European Commission and the ECB, the Securitisation Committee has worked on a number of important topics including (i) the interpretation of the jurisdictional scope of application of the Securitisation Regulation (2017/2402), (ii) due diligence requirements on institutional investors in the EU and (iii) clarification of the scope of application of the framework with respect to third countries.

In April 2019, the EBA published its final RTS on the calculation of capital requirements in relation to securitised exposures (Kirb) in accordance with the purchased receivables approach, and in July 2019 it published a consul-

tation on the guidelines on the determination of weighted average maturity due under the tranche. Both products will contribute to an increase in the use of internal models by banks investing in securitisations and will allow investors to better understand the risks they take when investing in securitisations.

In September 2019, the EBA published a discussion paper with a proposal on criteria for simple, transparent and standardised (STS) synthetic securitisation. These proposed criteria were designed on the basis of the existing STS criteria for traditional securitisation, with certain other specific criteria being added to ensure that (i) the STS framework only targets balance-sheet synthetic securitisation, (ii) credit protection agreements are structured to adequately protect the position of both the originator and the investor from a prudential perspective, and (iii) counterparty credit risk for both the originator and the investor is properly addressed. The consultation period ended in November 2019 and the EBA expects to publish a final report in the second quarter of 2020.

Roadmaps on the risk reduction measures package

The risk reduction package – which comprises amendments to the Capital Requirements Directive (CRD), Capital Requirements Regulation (CRR), Bank Recovery and Resolution Directive (BRRD), and Single Resolution Mechanism Regulation (SRMR) – allocates more than 100 new mandates to the EBA. These mandates update and complete the Single Rulebook and the monitoring of regulatory practices.

The EBA decided to cover the areas of governance and remuneration, large exposures, Pillar 2 requirements, resolution, and prudential reporting and disclosures in a package of roadmaps that completes other individual roadmaps, such as those on market risk and sustainable finance.

The rationale for issuing this set of roadmaps was to provide information about the sequence and prioritisation of mandates. In the roadmaps, the EBA

provided a preliminary account of its understanding of the mandates combined with some policy guidance.

The drafting of the roadmaps was a collaborative effort within the EBA, as the mandates often cut across the organisation and sequencing decisions affect many different workstreams. The EBA had to balance, on the one hand, consultation periods and sufficient time for drafting work and, on the other hand, the prioritisation envisaged and the timelines set by the co-legislators.

Overall, this work will facilitate planning and informed discussions internally and with external stakeholders. By providing this degree of transparency, the EBA will contribute to making the European Single Rulebook more comprehensive, proportionate and apt to reflect developments in the banking sector.

Implementation of the prudential framework for investment firms and upcoming EBA regulatory products

Directive (EU) 2019/2034 and Regulation (EU) 2019/2033 (the Investment Firms Directive and Regulation) were published on 5 December 2019, introducing a new prudential framework for investment firms authorised pursuant to the Markets in Financial Instruments Directive.

The EBA provided high-level assistance and advice to the European Commission in the process of the development of this new framework, which is based on recommendations provided by the EBA in response to the Euro-

pean Commission's call for advice on investment firms, published in 2017.

The aim of the new framework is to create prudential requirements for investment firms that are simpler and more proportionate than those currently applicable under CRD 4 and the CRR. The new framework aims to modify most of the requirements laid down in the CRD 4 and CRR framework, taking into account the size, nature and complexity of investment firms' activities.

Figure 3: Towards a new prudential framework for investment firms



The new framework sets out a significant number of mandates for the EBA on the following areas: thresholds and criteria for investment firms to be subject to the CRR, capital requirements and capital composition, reporting and disclosure, remuneration and governance, supervisory convergence and the supervisory review process, and environmental, social and governance (ESG) risks.

These include the development of 18 sets of RTS, 3 sets of implementing technical standards (ITS), 6 sets of guidelines and 2 reports, as well as a requirement for the EBA to maintain a list of capital instruments and a database of administrative sanctions.

The EBA plans to submit the regulatory products related to these mandates in accordance with a schedule divided into four phases, mostly in line with the legal deadlines. The regulatory products of the first phase will be provided by the end of 2020. The other products will be developed in the remaining three phases from 2021 to 2025.

In June 2020 the EBA will launch the first three consultation papers (CPs) on several sets of draft RTS and ITS: the first related to investment firms' reclassification as credit institutions; the second related to reporting and disclosure and the third related to remuneration. These technical standards will be developed in close collaboration with ESMA.

Continuing the IRB repair programme and the benchmarking of internal models

In 2019, the EBA conducted its regular annual supervisory benchmarking exercises, aimed at identifying outliers in the calculations of RWAs using internal models. The comparison of risk parameters across European banks allows supervisors to identify possible sources of differences and, when these are not justified, it triggers the necessary policy actions to improve convergence and promote disclosure. Since 2015, these studies have formed part of the annual supervisory benchmarking exercises that are prescribed by Article 78 of the CRD, which sets out requirements for institutions, competent authorities and the EBA concerning the establishment of a regular supervisory benchmarking process to assess the internal models used to compute own funds requirements (except in relation to operational risk). Each of these exercises is concluded by the publication of two horizontal reports summarising the main findings for credit and market risk.

The most challenging aspect of comparative RWA studies is distinguishing the influence of risk-based drivers from that of practice-based drivers. Therefore, the benchmarking methods differ for credit and market risk.

With respect to credit risk, the 2019 report presented, for the first time, a comparison of the variability under the standardised and the

ratings-based approaches. The report showed a similar observed variability under both approaches, and a similar explanatory power of the share of default exposures and portfolio composition. However, it also underlined that, within a single exposure class, the variability under the IRB approach follows in a conservative manner the empirical variability of risk (observed using default rates), while the variability of RWAs under the SA is less linked to empirical risk variability.

With respect to market risk, the 2019 exercise saw the introduction of a larger set of mostly vanilla instruments. These simpler instruments resulted in a reshaping of the benchmarking portfolios. These changes were introduced to improve data quality and make the design of the exercise more coherent. The market risk benchmarking report quantifies the levels of risk for the different types of products, indicating that interest rate and equity portfolios exhibit a lower level of dispersion. However, the variability increases with the complexity of the risk metric, and stressed value at risk, incremental risk charge and all-price risk show higher levels of dispersion.

The specifications for the annual benchmarking exercises are included in ITS that set out the benchmarking portfolios and reporting in-

structions to be applied. In July 2019, the EBA published its annual update to the ITS, specifying the benchmarking portfolios for the 2020 benchmarking exercise.

On the market risk side, a significant simplification of the instruments collected was introduced in an attempt to further increase data quality and the coverage of instruments, and to gain a better understanding of the causes of the variability of the models' outcomes.

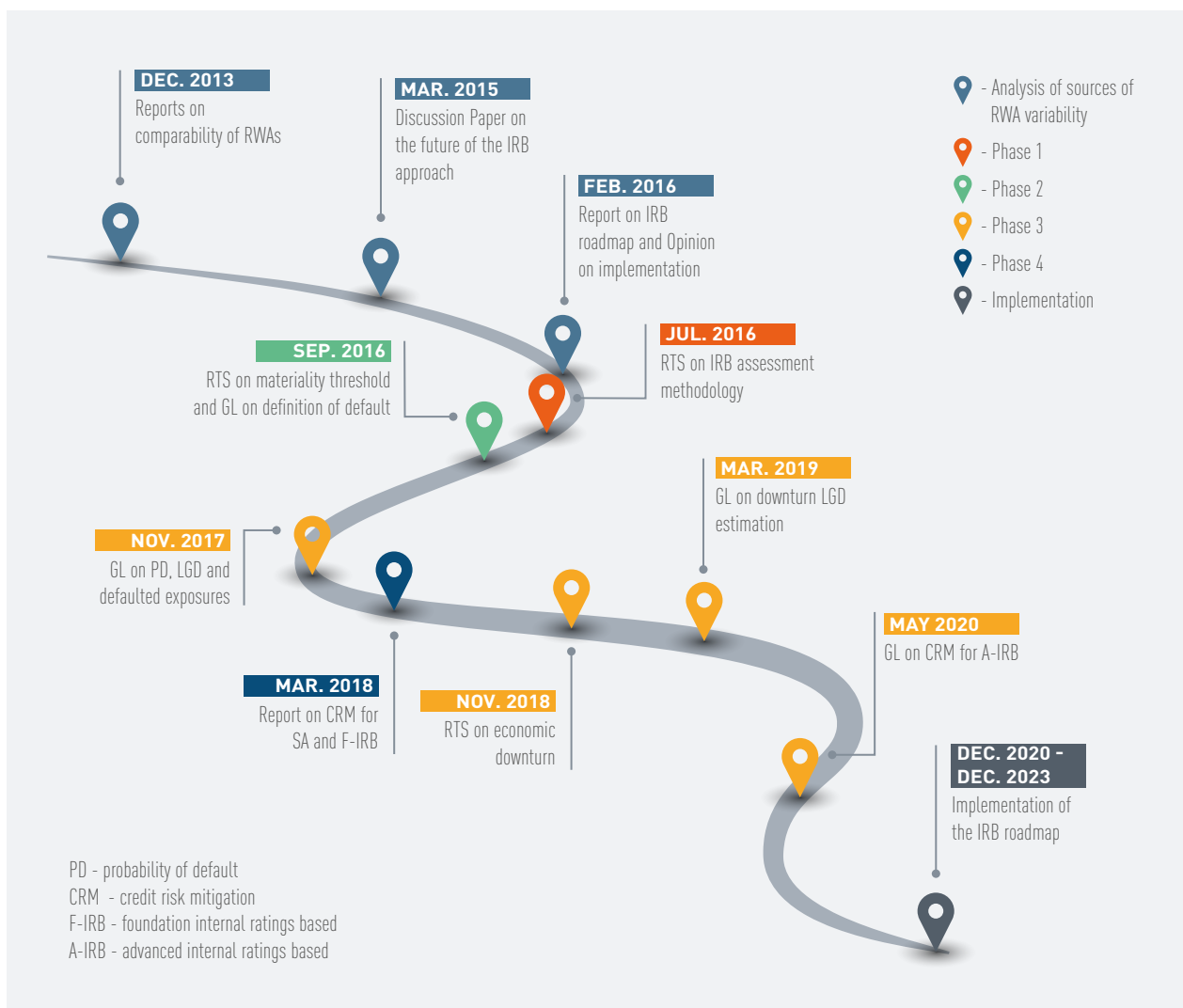
On the credit risk side, a significant reduction in the number of portfolios collected was introduced in an attempt to further increase data quality. The intention is to keep the definition of the portfolios stable for the next update to the ITS.

The overall results of the review on RWAs form a key input for the work on the variability of own funds requirements stemming from internal model approaches.

IRB roadmap

In March 2019, the EBA published the Guidelines on downturn LGD estimation, and this way finalised the regulatory review of the IRB approach, as initially set out in a report published in February 2016. Achievements to date and planned next steps were described in a progress report on the IRB roadmap published in July 2019, which also set a revised timeline for the implementation of the regulatory revisions.

Figure 4: Completion of the regulatory review of the IRB approach



In addition, to complement the regulatory review, the EBA initiated work on guidelines on credit risk mitigation for institutions applying the IRB approach with own estimates of loss given default. Following the consultation paper published in February 2019, the EBA continued its work on finalising these guidelines, which were published in May 2020.

The IRB roadmap is composed of three main strands of work. After finalising the regulatory review of the IRB approach, the EBA is focusing on the remaining strains of work, namely promoting consistency of supervisory practices and monitoring, and ensuring appropriate transparency for supervisors and market participants.

Consistent assessment by competent authorities is facilitated through, among other things, harmonised methods and criteria for

assessments. In addition to its work on these, the EBA provides efficient tools for competent authorities, enabling them to monitor the outcomes of internal models, mostly based on the annual supervisory benchmarking exercise. In the area of transparency, the EBA has initiated broader work on a review of Pillar 3 disclosures and supervisory reporting, which includes the elements of the IRB approach.

The main objective of the IRB roadmap is to restore the trust of market participants in the outcomes of internal models and to ensure a level playing field and own funds requirements that appropriately reflect the level of risk taken on by institutions. It is expected that the implementation of the IRB roadmap will lead to a substantial improvement in the comparability of risk estimates and RWAs across institutions.

Adjusting governance and remuneration policies

Directive (EU) 2019/878 (CRD 5), adopted on 20 May 2019, amends Directive 2013/36/EU (the CRD) as regards, inter alia, governance and remuneration provisions, to ensure a more harmonised and proportionate approach within the EU.

In particular, following the recommendations of the European Commission's report of 28 July 2016, the new provisions clarify that the requirements set out in small institutions and staff with low levels of variable remuneration are exempted from the principles on deferral and pay-out in instruments and pension policy set out in Directive 2013/36/EU. In line with the mandate given to it in CRD 5, in 2019 the EBA started to amend its guidelines on sound remuneration policies to specify the conditions for the application of proportionality. The ongoing review of the guidelines on sound remuneration policies will also involve further specifying some other aspects regarding application to groups, the use of share-linked instruments and the deferral period. In parallel and also following the new drafting of the CRD 5, the EBA has amended its RTS on qualitative and appropriate quantitative criteria to identify categories of staff

whose professional activities have a material impact on an institution's risk profile.

In addition, as CRD 5 introduces a new provision requiring that remuneration should be gender-neutral, meaning that remuneration policies should be based on equal pay for male and female workers for equal work or work of equal value, the EBA started developing guidelines in this respect.

The EBA also started to review the guidelines on the fit and proper assessment of the suitability of members of the management body and key function holders to reflect CRD 5 amendments aimed at improving risk management, increasing board involvement in risk management oversight and clarifying that money laundering/terrorist financing (ML/TF) risk is part of the SREP and therefore of sound governance arrangements.

Most of the governance requirements set out in the CRD have been replicated in the Investment Firms Directive, adopted in November 2019, taking into account the size, nature and complexity of investment firms' activities.

Monitoring the implementation and supervisory convergence of resolution, prudential, consumer, payments and AML requirements across the EU

Promoting efficient and coordinated crisis management of credit institutions, investment firms and financial market infrastructures in the EU

In February 2019, the EBA published a handbook on valuation for purposes of resolution, with the aim of fostering the convergence and consistency of valuation practices and interaction with independent valuers across the EU.

The EBA added to the handbook a chapter relating to institutions' management information systems (MISs) for valuation for resolution. This chapter focuses on a resolution

authority's assessment, in the context of a resolvability assessment, of an institution's capability to swiftly provide data and information to support a robust valuation in the event of resolution. This assessment aims to increase institutions' preparedness in business-as-usual circumstances to support a timely and robust valuation in the event of resolution.

The handbook's approach to valuation MISs takes into account the proportionality principle, as it relies on institutions' data aggregation capabilities and on internal valuation models that are suitable for valuation for resolution purposes. The chapter on valuation MISs also includes a non-binding common dictionary for banks to use in describing assets and liabilities in their self-assessments. The results of the self-assessment form the basis of a dialogue between the institution and the resolution authority with the aim of calibrating the institution's valuation MIS requirements in the context of the resolvability assessment.



Assessing convergence of supervisory practices

The EBA established a convergence plan for 2019 with the aim of fostering supervisory convergence across the Union. The plan, which identified key topics for heightened prudential supervisory attention, was intended to inform competent authorities' processes for selecting supervisory priorities for 2019, as well as to draw their attention to the consistent implementation of certain policy products.

The EBA identified attention points (objective elements) for each of the key topics (see figure 5) to promote a common approach to supervising them; these points also served as the basis for the EBA's follow-up.

The conclusions from the EBA follow-up fed into the annual convergence report,^[2] which informs the European Parliament and the Council on the degree of convergence of supervisory practices; they showed that competent authorities took into account in their supervisory work the key topics identified by the EBA's 2019 convergence plan, although to different degrees for different topics.

Internal governance

Competent authorities are expected to ensure that their supervision of institutions' internal governance arrangements takes into account the revised EBA guidelines on internal governance and the EBA-ESMA joint guidelines on the assessment of the suitability

of members of the management bodies and key function holders, both of which entered into force on 30 June 2018.

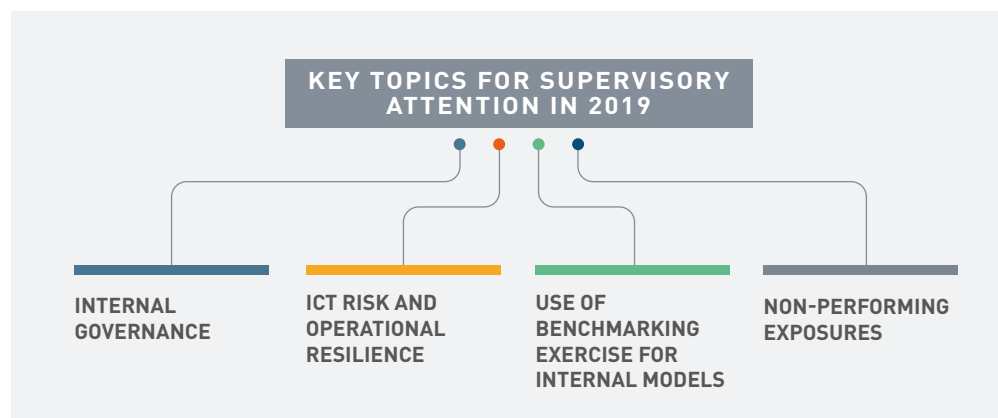
The governance arrangements of credit institutions, including the periodic assessment of the effectiveness of the internal governance framework and the assessment of the three lines of defence, were well covered in supervisory activities in 2019. The ongoing assessment of the individual and collective suitability of the members of the management bodies will require further attention, as will the implementation of diversity policies, including targets for the underrepresented gender.

Information and communications technology risk and operational resilience

The EBA issued guidelines on information and communications technology (ICT) risk assessment under the SREP to assist competent authorities in their assessment of ICT risks in the light of the increasing complexity and growing importance of those risks. The Guidelines entered into force in January 2018 and in 2019 the competent authorities reviewed institutions' approaches to and processes for assessing and mitigating ICT risks. The existence of an ICT strategy and the coverage of ICT risk in the internal capital adequacy assessment process were generally confirmed, but further attention will need to be dedicated to the formalisation of the ICT risk appetite and how it cascades down the organisation, as well as to ICT risk governance and controls.

[2] 2019 Report on Convergence of Supervisory Practices – link in once available

Figure 5: Key topics for supervisory attention in 2019



Non-performing exposures

Assessment and monitoring of the reduction of non-performing loans (NPLs) in institutions' balance sheets was introduced among the key topics for supervisory attention in 2019 to monitor the preparation of supervisors for the implementation of the guidelines on the management of non-performing exposures (NPEs) and forborne exposures (FBEs).⁽³⁾

The requirement for the establishment of an NPE strategy and related implementation

⁽³⁾ These were applicable from 30 June 2019.

plan by banks meeting specific conditions was well implemented across the EU, in particular among institutions with relatively high NPE/NPL levels. In future, the quality of NPE strategies and their consistency with operational plans will need to be enhanced, in particular by smaller and less complex institutions.

Use of the benchmarking exercise for internal models

Competent authorities have increasing experience of conducting the annual assessment of the benchmarking of internal models that is supported by the EBA's benchmarking exercise.

Reducing variability in models and expanding benchmarking to International Financial Reporting Standard 9

A comprehensive understanding of the practices followed by banks regarding modelling under International Financial Reporting Standard (IFRS) 9 was a key area on which the EBA focused in 2019, and it will continue to do so in the years to come. In July 2019, the EBA published the IFRS 9 roadmap and launched the IFRS 9 benchmarking exercise.⁽⁴⁾ The exercise, which is ongoing, is essential from a supervisory perspective, as the measurement of expected credit losses directly affects the level of own funds and regulatory ratios. This initiative is the

first step in the in-depth work to be carried-out on the identification of inconsistencies that may lead to excessive/undue variability in the prudential figures. Owing to its complexity, this is a medium- to long-term objective to be achieved following a staggered approach.

The first phase of the exercise, as explained in detail in the IFRS 9 roadmap, was very much focused on the integration of IFRS 9 probability of default for IRB banks into the ITS on benchmarking (for low default portfolios only). The next step, as also announced in the IFRS 9 roadmap, is to work on the integration of additional IFRS 9 parameters into the ITS on benchmarking.

⁽⁴⁾ <https://eba.europa.eu/eba-publishes-its-roadmap-on-ifrs-9-deliverables-and-launches-ifrs-9-benchmarking-exercise>



Operationalising prudential policies on outsourcing needs, structural FX coverage and resolution

Outsourcing guidelines

The EBA updated its outsourcing guidelines, integrating its recommendations on outsourcing to cloud service providers into the guidelines to provide a clear framework and legal certainty when institutions make use of service providers to outsource functions, in particular in technically innovative areas such as cloud computing and other information technology (IT) services. Legal certainty with regard to such arrangements is key.

In the context of digitalisation and the increasing importance of IT and financial technology, outsourcing is a way to relatively easily access new technologies and to achieve economy of scale. Legal certainty helps to ensure that institutions can implement new technologies in an efficient way, thus optimising the efficiency of their business activities, which is necessary partly in response to the pressures on the intermediation margins of the traditional banking business model resulting from the low interest rate environment. The implementation of outsourcing registers will also help to support the supervision of institutions' outsourcing arrangements and to identify risk concentrations with certain service providers.

Towards harmonised conditions for the granting of structural FX waivers in the EU

The structural FX provision in Article 352(2) of the CRR enables competent authorities to allow – or disallow – the exclusion from the calculation of the net open position in a given foreign currency of positions of a structural nature in that currency, provided that such positions have been taken for the purpose of hedging the institution's capital ratio. Structural positions would normally stem from the cross-border business of institutions, where currencies different from the institution's reporting currency are used.

The concept and specific application of the structural FX provision appear to be subject to several interpretations among both supervisory authorities and institutions, which has led to

the inconsistent implementation of the provision across the EU. In addition, the treatment of structural FX was modified in the recently published FRTB.

To ensure harmonised interpretation and implementation in the EU, the EBA published in October 2019 a consultation paper on draft guidelines on the treatment by competent authorities of Structural FX positions. This consultation paper follows a discussion paper that the EBA published on 22 June 2017 to gather feedback on stakeholders' practices and interpretation of the Structural FX provision.

The consultation paper was developed taking into account both the feedback on the discussion paper and the revised FRTB standards agreed in the international fora. The consultation paper is deemed to set objective criteria that the competent authorities should consider when assessing if the conditions set out in Article 352(2) for receiving permission are met. In this context, to harmonise practices in the EU, several technical details, for example related to the computation of the maximum open position that can be waived subject to supervisory approval, were specified in the draft guidelines.

Increased harmonisation is considered particularly relevant in this field, as the impact of the waiver can be material and, in recent years, banks appear to have become increasingly interested in the application of the structural FX exclusion.

Resolution

Interaction with securities law

In the area of resolution, the EBA devoted attention to the operationalisation of the bail-in process work in order to enhance its efficiency. One significant area of work has been an examination of the interface between the bail-in process and European securities law. The examination was wide-ranging, covering the period in the lead-up to a resolution decision, the suspension of trading and the readmission of financial instruments to trading.

In conducting this exercise, the EBA engaged with colleagues in ESMA, as well as those in the European resolution authorities. This included the development of a survey of both resolution and market authorities to understand their practices and expectations in relation to the application of securities law, primarily the Market Abuse Regulation but also touching on other legislation such as the Prospectus Directive. The responses received provided a large volume of very valuable information that highlighted both common and divergent practices.

The responses were summarised and provided a basis for discussion with ESMA. ESMA is currently undertaking a review of the Market Abuse Regulation, for the purpose of which it launched a public consultation process in early October 2019.

The aim of the current work is to ensure that the European legislation provides a cohesive framework that enables bail-in to be executed for failed banks while respecting the requirements of securities law, including with regard to transparency in the markets.

State aid

A second significant area of work was the interaction of bail-in with EU regulations on mergers and state aid approvals. The results of the work have been assembled in a module that provides an overall picture of the interaction between these frameworks and helps resolution authorities to identify the applicable procedural aspects. In conducting this exercise, the EBA engaged with the relevant directorates-general of the European Commission.

Convergence in the supervision of payment services and consumer protection requirements

Throughout 2019, the EBA continued its work in the area of payment services to help in achieving the objectives of the Payment Services Directive (PSD 2) and to ensure that the requirements of the directive and the related EBA technical standards and guidelines are applied in a sound, efficient and consistent manner across the EU.

To support the implementation of the PSD 2 provisions on access to payment accounts and the PSD 2 objectives of promoting innovation and competition in the payments market, throughout 2019 the EBA provided clarifications in response to queries from the industry on the implementation of the access interfaces required by PSD 2. In addition, the EBA dealt with queries regarding practical challenges faced by the industry in the run-up to the application date of Commission Delegated Regulation (EU) 2018/389 on strong customer authentication and common and secure communication (the RTS on SCA and CSC) on 14 September 2019. To better understand the challenges faced by the industry, in January 2019 the EBA also set up a working group on APIs under PSD 2 composed of 30 industry participants and the NCAs, ensuring balanced and equal representation of the main stakeholders involved across the EU. The group had

five meetings during 2019. The EBA published clarifications in response to around 30 issues that were raised and discussed in the group.^[5]

To support the PSD 2 objective of enhancing the security of payment transactions and to reduce fraud, in June 2019 the EBA published an opinion on the elements of SCA under PSD 2, providing clarity on what constitutes a compliant authentication approach in two-factor SCA under PSD 2 and the RTS on SCA and CSC. In addition, to avoid unintended negative consequences for the market, the EBA allowed a limited degree supervisory flexibility with regard to e-commerce card-based payment transactions, provided that payment service providers migrate in an expedited manner to SCA-compliant authentication approaches. In October 2019, in a subsequent opinion, the EBA set the deadline for migration, 31 December 2020, and prescribed the expected actions to be taken during the migration period by competent authorities and payment service providers.

Finally, by the end of 2019 the EBA had published around 100 answers in response to

^[5] <https://eba.europa.eu/regulation-and-policy/payment-services-and-electronic-money/eba-working-group-on-apis-under-psd2>

queries received from various stakeholders on PSD 2 and the related EBA mandates, with the vast majority clarifying specific aspects of the RTS on SCA and CSC.

In the area of consumer protection, the EBA published, in July 2019, a report on the imple-

mentation of the guidelines on product oversight and governance arrangements that it had published in 2015 and which have applied since 2017. The report identified a number of good and bad practices and outlined the next steps that the EBA will take to fulfil its supervisory convergence mandate.

Ensuring the consideration of ML/TF risks in the prudential context

The EBA published an opinion on communications to supervised entities in July 2019, following the European Council action plan issued at the end of 2018, which emphasised the need to improve the effectiveness of anti-money laundering and countering the financing of terrorism (AML/CFT) supervision and of exchange of information and collaboration between the relevant authorities and prudential supervisors, especially cross-border. In the opinion, the EBA highlighted the importance of ML/TF risks in the prudential context and across the single market. The opinion invited prudential supervisors to inform the management bodies and senior management of institutions that prudential supervisors can act upon ML/TF risks that may have an impact on an institution's safety and soundness.

Prudential supervisors were also asked to remind market participants of the ongoing need for closer cooperation and increased information exchange between prudential supervisors and AML/CFT competent authorities at home and abroad. This is because prudential supervisors should use the information held by AML/CFT authorities in their supervisory processes, and AML/CFT supervisors should use the information from prudential supervisors to inform their approach to the AML/CFT supervision of institutions.

In addition, the EBA started work on integrating AML/CFT considerations into prudential supervision to make sure that ML/TF risks are taken into account throughout the supervisory processes, including authorisation and ongoing supervision, and specifically in the context of the SREP, as part of the review of risks, business models, credit operations, governance and internal risk management. This work continues into 2020 and beyond.

Ensuring consistent and effective implementation of AML/CFT policies and standards through implementation reviews

In addition to the AML/CFT-related initiatives that the EBA carried out in 2019 jointly with ESMA and EIOPA (presented separately in the section on [Anti-money laundering/countering the financing of terrorism](#)), the EBA implemented phase 1 of a multi-annual programme of reviews of competent authorities' approaches to the AML/CFT supervision of banks. The purpose of these reviews is to assess the effectiveness of national competent authorities' approaches to the AML/CFT supervision of banks and to support individual competent authorities' AML/CFT efforts. In so doing, the EBA aims to improve AML/CFT supervision in a consistent manner across jurisdictions, because ML/TF cannot be fought in isolation, and weaknesses in one area of the single market expose the entire single market to abuse.

Over the course of 2019, review teams led by EBA staff reviewed seven competent authorities from five Member States. They found that all competent authorities in this year's sample had taken steps to apply the risk-based approach to AML/CFT supervision set out in international standards, EU law and the ESAs' AML/CFT guidelines. In a number of cases, significant reforms were still under way, and several competent authorities had made tackling ML/TF one of their key priorities.

The EBA's review teams also identified a number of challenges that were common to those competent authorities and that may be relevant to other competent authorities responsible for the AML/CFT supervision of financial institutions in other parts of the single market. These challenges included:

- translating theoretical knowledge of ML/TF risks into supervisory practice and risk-based supervisory strategies;
- shifting from a focus on testing compliance with a prescriptive set of AML/CFT requirements to assessing if banks' AML/CFT systems and controls are effective, and taking proportionate and sufficiently dissuasive corrective measures if they are not;
- cooperating effectively with domestic and international stakeholders to draw on synergies and to position AML/CFT in the wider national and international supervisory frameworks.

In line with their mandate, review teams made recommendations tailored to each competent authority in the 2019 sample to support their AML/CFT efforts. The EBA is making use of these findings also to inform its AML/CFT priorities and deliverables in 2020, including by working with competent authorities to implement the ESAs' AML/CFT cooperation guidelines, which were published in December 2019.⁽⁶⁾ The EBA will throughout 2020 continue its series of AML/CFT implementation reviews.

As a result of these challenges, competent authorities' approaches to the AML/CFT supervision of banks were not always effective.

⁽⁶⁾ The ESAs' AML/CFT guidelines on supervisory cooperation are presented separately in the section on The ESAs' cross-sectoral work under the Joint Committee.



AML/CFT



CAROLIN GARDNER

Senior Policy Expert



ENDIJA SPRINGE

Policy Expert

Why is it important to fight money laundering and terrorist financing?

Money laundering facilitates and perpetuates crime and supports criminals, whereas terrorist financing facilitates the commitment of acts of terror at home and abroad. Together, they undermine the trust of citizens in financial institutions, negatively affect market integrity and threaten the stability of the financial system.

ML/TF cannot be fought in isolation. This is why, since our inception, we have been working to foster a common approach to AML/CFT by competent authorities and financial institutions, and to equip them to apply this approach effectively by publishing standards, guidelines and opinions. A common approach is important, especially in the single market context, because a weakness in one part opens up the entire EU financial system to abuse.

What has been your focus in 2019?

The EU has been rocked by high-profile AML/CFT cases involving European banks, and it has been suggested that competent authorities should have done more to prevent this. As a result, our focus has been very much on strengthening AML/CFT supervision in Europe. And, for this, we adopted a three-pronged approach: we worked to ensure that competent authorities develop a good understanding of key ML/TF risks; we laid the foundations for effective cooperation and information exchange; and we built on our existing framework of standards and guidelines to work with individual competent authorities to support their AML/CFT efforts.

Why focus on supervisory cooperation?

Cooperation and information exchange between competent authorities are an essential part of an effective AML/CFT regime. Without these, supervisors will not have a full view of the risks associated with financial institutions and this makes their supervision less effective. Yet we found that cooperation and information exchange did not always take place. To address this, we took a number of steps. We facilitated the development of an agreement that sets out the practical modalities for cooperation and information exchange between the ECB in its capacity as prudential supervisor and all national AML/CFT supervisors. We also published an opinion on the consideration of ML/TF risks in the prudential context. And, importantly, we developed own-initiative guidelines on supervisory cooperation in the AML/CFT space. These guidelines establish a framework for cooperation that includes the setting up of AML/CFT colleges, a new concept that mirrors the work that we have done in ensuring prudential colleges of supervisors work well. The first AML/CFT colleges have now been established, and we are really pleased that AML/CFT colleges have already been identified as a good practice by international standard setters.

Now that we have a sound framework in place, we will consider more broadly how to factor AML/CFT-related aspects into the prudential supervisory process as part of various prudential guidelines, including the guidelines under Article 117 of the CRD and the guidelines on internal governance, authorisations and SREP.

Why focus on risks?

One of the key components of effective AML/CFT supervision is a good understanding of ML/TF risks by competent authorities so that their supervisory approach can be adjusted according to the risk exposure of individual financial institutions or sectors. Therefore, in October 2019 the EBA, jointly with ESMA and EIOPA, published an opinion on ML/TF in the EU financial sector in which we called out weaknesses in the control frameworks put in place by financial institutions and highlighted the limited supervisory engagement in some sectors as a risk.

What about implementation of the risk-based approach to AML/CFT supervision?

We launched a programme of multi-annual, staff-led reviews of competent authorities' approaches to the AML/CFT supervision of banks. As part of this programme, a team of EBA staff, together staff from some national competent authorities, carries out assessments of each competent authority's supervisory approach and provides direct support for the implementation of the risk-based approach. Our findings to date suggest that most competent authorities take AML/CFT seriously and that reform is under way, but significant challenges persist. Addressing these challenges will inform much of our future work.

What happens next?

Since January 2020, we have become the only ESA with direct responsibility for AML/CFT. We also have a new legal duty to lead, coordinate and monitor EU supervisors' AML/CFT efforts and to prevent the use of the EU financial system for ML/TF purposes. These are important changes, but do not of course change the minimum harmonisation nature and directive-based approach of the EU's AML/CFT framework. This limits how much convergence our work can achieve and means that some gaps in the EU's AML/CFT defences may remain. We therefore welcome the Commission's current review of the EU's AML/CFT framework and look forward to supporting this process with technical input and advice as appropriate.



HORIZONTAL PRIORITIES AFFECTING THE EU FINANCIAL SECTOR

Ensuring technological neutrality in regulatory and supervisory approaches

Assessing trends in the roll-out of big data and advanced analytics

Through its ongoing monitoring of innovation, as well as the emerging data-driven approach across the banking sector, the EBA has identified the use of big data and of artificial intelligence and machine learning (AI/ML) as promising and growing technological innovations for financial services. Notably, based on the EBA risk assessment questionnaire ^[7] (autumn 2019), two out of three EU credit institutions ^[8] were observed to have big data and advanced analytics (BD&AA) solutions in production. With this in mind, the EBA conducted a deep-dive review on the use of BD&AA in the banking sector and in January 2020 published the Report on Big Data and Advanced Analytics. The aim of the report is to share knowledge among stakeholders on current practices and present the key pillars and elements of trust that should accompany the use of BD&AA.

Currently, BD&AA are part of most institutions' digital transformation programmes, along with the growing use of cloud computing and the dominant use of core banking data to feed into data analytics. Core banking data are used rather than other data sources such as external social media data, probably because of institutions' concerns about the reliability and accuracy of other data sources. A key

constraint for institutions is the integration of BD&AA into existing business processes, as they recognise the need to develop relevant knowledge, skills and expertise in this area. Institutions appear to be at an early stage of AI/ML use, focusing on predictive analytics relying mostly on simple models. More complex models can bring better accuracy and performance but give rise to explainability and interpretability issues. At this stage, institutions leverage on BD&AA mainly for customer engagement and process optimisation purposes (including for regulatory technology, or RegTech), with a growing interest in the area of risk management. However, the landscape may evolve rapidly in the next few years.

Data management, technological infrastructure, analytics methodology, organisation and governance are the key pillars identified by the EBA to support the roll-out of advanced analytics. Technological infrastructure remains an ongoing challenge for most institutions as they deal with related legacy issues. In addition, the use of new, often diverse, sources of data and increased recognition of citizens' rights over that data pose specific challenges for data management inside institutions, which require attention and possibly targeted action.

^[7] <https://eba.europa.eu/risk-analysis-and-data/risk-dashboard>

^[8] Out of a total sample of 65 EU banks

Furthermore, a number of elements of trust need to be properly and sufficiently addressed: ethics, explainability and interpretability, fairness and avoidance of bias, traceability and auditability, data protection, data quality, security and consumer protection.

Institutions should make additional efforts to ensure that BD&AA solutions respect and integrate these elements of trust. With the aim of meeting this objective, a risk-based approach could be applied to certain elements of trust depending on the impact of each BD&AA application. For example, stricter requirements

might apply to the explainability element if there were a potential impact on business continuity or potential harm to the customer.

Current trends and the pace of change may soon raise the question of the need to develop AI/ML policies or regulatory frameworks for the application of AI/ML in an effort to facilitate its proper development, implementation and adoption within institutions. Possible steps could focus in particular on data management and ethical aspects, as these appear to be the prevailing areas with a potential need for direction.



VAIDOTAS TAMULENAS

Bank Expert



MONITORING INNOVATIONS AND MANAGING RISKS

Technology-enabled financial innovations create opportunities, but they may also bring new risks. Therefore, it is important to closely monitor and understand them, in order to be ready to provide an appropriate policy response when needed.

At the Banking, Markets, Innovation and Products Unit, the focus of my work is on both innovations and risks. I monitor technology-based innovations and assess the opportunities they provide. In parallel, I coordinate projects to address some of the associated risks, primarily related to ICT, cybersecurity and operational resilience.

On the innovation side, in 2019 we redesigned the innovation monitoring process by setting up an online innovation screening tool, which helps us keep track of the latest developments on innovations and assess their importance. This tool facilitates the identification of top-priority areas and helps to guide the work of the Sub-Group on Innovative Products. In 2020, we will aim to gain a better understanding of digital platforms, and I am very excited to be able to contribute to this work.

In addition, in 2020 the EBA is conducting the analysis of the level of regulatory technology (RegTech) development within the EU financial sector, and will facilitate supervisory knowledge building on technology-enabled innovations for supervisory purposes (SupTech). We intend to host a SupTech workshop, a dedicated event to share experiences and expertise among the EU competent authorities on practical SupTech use cases.

On the risk management side, in 2019 the EBA published important guidelines on ICT and security risk management that aim to increase the resilience of the EU banking and payments sectors. It was a very rewarding opportunity for me to coordinate this work, both from a policy perspective, because of the importance of the guidelines to the industry, and from a technical perspective, as it enabled me to further develop my ICT security skills.

We all know that for cybercriminals it is easier to trick people than to break sophisticated security technology. A good understanding of potential threats and proper cyber-hygiene is especially important now, when more and more parts of our lives, from shopping to financial services, have become digital and moved online. Be innovative, stay safe!



Assessing the applicability and suitability of EU law to crypto-assets

Following the publication of its report in 2019, the EBA has been continuously monitoring market and supervisory developments in relation to crypto-assets, including so-called stablecoins, and supporting work at the international level, including BCBS and FATF work. In 2020, the EBA will continue monitoring crypto-asset activities, promoting consistency in the regulatory treatment of crypto-assets, including so-called stablecoins, and contributing to international work in this area.

In January 2019, the EBA published a report setting out its advice to the European Commission on the applicability and suitability of EU law with regard to crypto-asset activities.

The EBA identified a relatively low level of crypto-asset activity in the EU and observed that, typically, activities involving crypto-assets fall outside the scope of EU banking, payments

and e money regulation, resulting in uncovered risks. The EBA also observed that divergences between Member States are starting to emerge as national authorities bring forward domestic measures to address these risks, thereby undermining the level playing field.

Taking account of these issues, the EBA highlighted the need for a comprehensive cost-benefit analysis, taking account of issues inside and outside the financial sector, to determine what, if any, action is required at the EU level at this stage to address the identified risks to consumers, operational resilience, and the level playing field. The EBA also advised the European Commission to take account of the October 2018 recommendations of the Financial Action Task Force (and any further standards or guidance) to strengthen AML/CFT measures and to take steps where possible to promote consistency in the accounting treatment of crypto-assets.



Assessing the impact of FinTech on payment institutions' and e-money institutions' business models

Following the publication of the EBA's thematic report on the impact of FinTech on incumbent credit institutions' business models (July 2018),^(?) the EBA conducted a similar analysis in 2019 for payment institutions (PIs) and e-money institutions (EMIs). This work comes under the EBA's FinTech roadmap, and in particular under the priority of analysing the impact of FinTech on institutions' business models to enhance knowledge-sharing among regulators and supervisors.

The payments sector is currently undergoing an important transformation, driven by regulatory changes in particular PSD2 and the EBA's technical standards, guidelines and opinion in support of that directive, and market developments, with many innovations modifying front-end processes to improve the customer experience while leaving the underlying operating infrastructure unchanged. The key drivers shaping and adjusting PIs' and EMIs' business models are similar to those identified in the related EBA thematic report (July 2018).

The findings of these two reports suggest a relationship between the growth of the payments industry and disintermediation in banking, considering that incumbent credit insti-

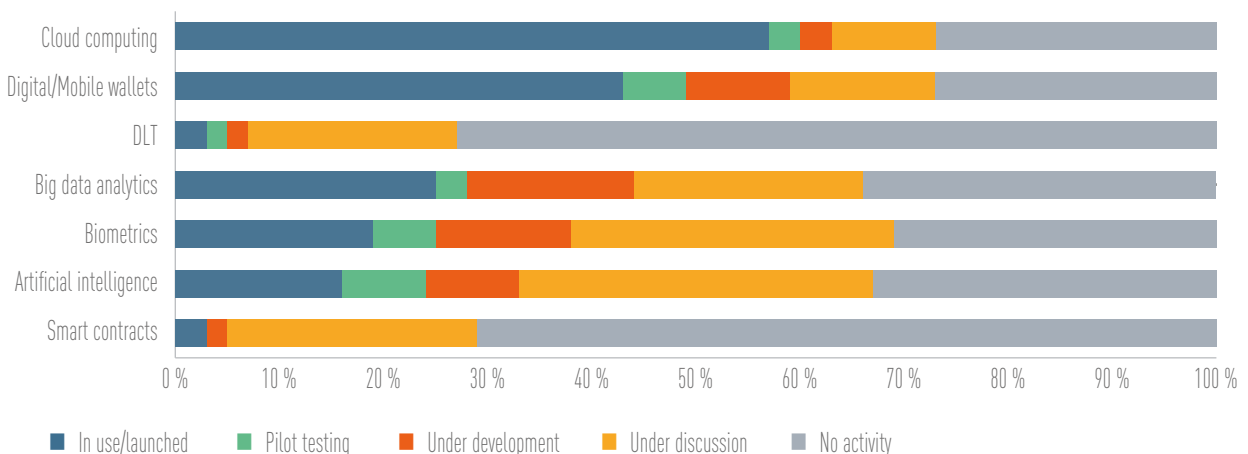
tutions reported a negative impact on their revenues from payment business lines. The current strategy of most institutions appears to be the expansion of their products and services and entry into new markets.

In general, PIs and EMIs are smaller (in terms of size and complexity) than credit institutions, and they are usually more agile and flexible in adapting to changes, which provides them with a competitive advantage in today's fast-paced business environment. Some PIs and EMIs are more technology-driven and have in place sufficient skills and adequate resources to develop innovative products internally to meet customer demand. While there is a slight trend towards the internal development of products and services using FinTech, without necessarily involving external partners, a significant number of PIs and EMIs partner with FinTech firms and technology providers for the development of innovative products.

A number of Big Tech firms have already obtained PI/EMI licences, and existing players expect them to participate more actively in the EU payments sector. With Big Tech firms posing a potential threat to the sustainability of PIs' and EMIs' business models, institutions are planning to focus on strengthening customer loyalty to cope with the increased participation of Big Tech firms in the payments sector.

(?) <https://eba.europa.eu/eba-assesses-risks-and-opportunities-from-fintech-and-its-impact-on-incumbents-business-models>

Figure 6: Level of application of technology-based solutions





Cloud computing and digital/mobile wallets have been the most prominent innovations in use, with an increasing interest in AI/ML,

BD&AA and biometrics. The outlook for the payment and e money sectors is quite positive in terms of revenues and profitability, with an overall expectation of an increased customer base and the introduction of new/revamped products, accompanied by an increase in internal FinTech developments and ICT spending. This may be partly due to institutions' investments in building defences to mitigate increased security risks and to minimise disruption to users, payment service providers and payment systems from growing cybersecurity and fraud challenges.

Current threats to the sustainability of PIs' and EMIs' business models relate to the potential impact of the active participation of Big Tech firms, the uncertain impact of Brexit and key dependencies on banks and card processors (for some PIs and EMIs). In addition, a number of key challenges need to be addressed relating to operational resilience and ICT security, operational capacity, regulatory changes, customer education, and acquisition and retention of skilled and talented staff.

Monitoring the emergence of innovation facilitators and setting out best practices

In January 2019, the ESAs published a report on innovation facilitators (regulatory sandboxes^[10] and innovation hubs^[11]), providing an overview of existing schemes and putting forward a set of best practices for their design and operation^[12].

At the time of publishing the report, the ESAs identified 24 innovation hubs and 5 regulatory sandboxes established by the competent authorities as a means of bridging industry and supervisors on innovation-related issues. The report sets out a comparative analysis of

the innovation facilitators and, based on this analysis, a set of best practices intended to (i) promote consistency across the single market in the design and operation of innovation facilitators; (ii) promote transparency of regulatory and supervisory policy outcomes arising from interactions in the context of innovation facilitators; and (iii) facilitate cooperation between national authorities, including consumer and data protection authorities.

To support the scaling up of innovative technologies cross-border, the ESAs recommended the establishment of a network to support closer communication and cooperation between innovation facilitators. As a result of the ESAs' advice, the European Forum for Innovation Facilitators (EFIF) has been established (see also section on [Coordinating the European Forum for Innovation Facilitators](#)).^[13]

^[10] Regulatory sandboxes are schemes to enable firms to test, pursuant to a specific testing plan agreed and monitored by a dedicated function of the competent authority, innovative financial products, financial services or business models.

^[11] Innovation hubs, on the other hand, provide a dedicated point of contact for firms to raise enquiries with competent authorities on FinTech-related issues and to seek non-binding guidance on regulatory and supervisory expectations, including licensing requirements.

^[12] <https://esas-joint-committee.europa.eu/Pages/ESAs-publish-joint-report-on-regulatory-sandbox-es-and-innovation-hubs.aspx>

¹³ <https://eba.europa.eu/financial-innovation-and-fintech/european-forum-for-innovation-facilitators>

Identifying obstacles to the cross-border provision of financial services

In October 2019, the EBA published an own-initiative report identifying potential impediments to the cross-border provision of banking and payment services in the EU.^[14]

Developed under the EBA's FinTech roadmap, the report reflects on the potential of digital solutions to support the provision of financial services cross-border and notes that the full potential of these solutions has not yet been achieved in the EU, in part as a result of divergences in regulatory requirements and su-

perisory practices among Member States. In particular, the EBA identified potential impediments to the cross-border provision of banking and payment services, including using FinTech, stemming from divergences in consumer protection, conduct of business and AML/CFT requirements and recommended that the European Commission take action to address these issues to support the provision of cross-border services. The EBA also recommended the updating of European Commission interpretative communications to support the identification of cross-border services in view of the digitisation of financial services.

^[14] <https://eba.europa.eu/eba-calls-european-commission-take-action-facilitate-scaling-cross-border-activity>

Review of RTS/ITS on passport notification

In 2019, the EBA launched a consultation paper on the draft amended RTS and ITS on passport notifications. The amendments focused on the quality and clarity of the information to be provided by credit institutions to their home competent authorities in passport notifications, as well as on communication between home and host authorities. In particular, material changes included requirements to indicate the date of the intended commencement of each activity for which the

passport notification is submitted; for information on the assumptions underpinning the financial forecasts; and for the provision of a statement by an external auditor, in case of the planned termination of a branch, that the credit institution no longer holds deposits or repayable funds from the public through the branch. The EBA plans to complete the review and submit the final amended RTS and ITS to the Commission for endorsement in the first half of 2020.

Guidelines on authorisation

At the end of 2019, the EBA started working on the mandate set out in CRD 5 relating to the development of guidelines specifying a common assessment methodology for granting authorisation as credit institution. This mandate is a further move towards EU harmonisation of regulation relating to market access and builds on the draft EBA RTS on the information to be provided by the appli-

cant credit institution to the competent authority when filing the application for an authorisation that have been developed by the EBA and submitted to the Commission but not yet endorsed. There is no legal deadline for the accomplishment of the mandate; however, the EBA plans to launch the consultation paper at the beginning of 2021.

Analysing the perimeter and licensing approaches of FinTech activities

In July 2019, the EBA published a report on regulatory perimeter, regulatory status and authorisation approaches relating to FinTech activities. The EBA found a few national legislative developments that could potentially create an unlevel playing field in the EU. With regard to regulatory status, the report illustrates that FinTech firms that are not subject to any regulatory regime broadly provide activities and services that are of an ancillary/non-financial nature and, therefore, do not need to be regulated. With regard to authorisation approaches, the EBA found that proportionality and flexibility principles are applied in the same way by competent authorities irrespective of whether the applicant presents a traditional or innovative business model and/or delivery mechanism.

The report delivered on one of the action points of the 2018 European Commission FinTech action plan, as well as on the EBA's FinTech roadmap of March 2018, namely on the monitoring of the regulatory perimeter, including the assessment of current authorisation and licensing approaches to FinTech firms.

The EBA report on FinTech activities does not lay down recommendations. The EBA will continue monitoring the regulatory perimeter and authorisation practices, also in the context of its mandate on innovation. With specific regard to the licensing of credit institutions, the EBA will undertake further work to level the playing field in the context of the development of guidelines under CRD 5.

Building ESG factors into the EBA's work

Setting out an ESG action plan for the banking sector

The European Commission's action plan on financing sustainable growth published in March 2018 ^[15] is part of broader efforts to connect finance with the specific needs of the European and global economies related to sustainable development. It calls on the ESAs to provide direct support for its implementation by performing specific tasks. Notably, the ESAs should provide guidance on how sustainability considerations can be effectively taken into account in relevant EU financial services legislation and help to identify existing gaps. They should also promote convergence on the implementation of sustainability considerations in EU law. The Commission has also introduced a new legislative package related to sustainable finance, including a regulation on an EU classification system, or taxonomy, for sustainable economic activities, legislation on disclosures relating to sustainable investments and sustainability risks, an amendment to the Benchmarks Regulation creating a new category of sustainability-related benchmarks, and amendments to delegated acts under the Markets in Financial Instruments Directive and the Insurance Distribution Directive to incorporate ESG considerations into the advice. This legislative package together with the CRR 2/CRD 5 package and amended EBA Regulation form the basis for the EBA's mandates on sustainable finance.

In 2019, the EBA established the foundations for work on its mandates on sustainable finance and prioritised technical preparatory work on market analysis and engagement with stakeholders, in addition to contributing to the work of the Commission's Technical Expert Group on Sustainable Finance. It established the EBA Network on Sustainable

Finance with EU competent authorities to set up a collaboration channel; organised three technical workshops with EU banks, competent authorities and researchers; and published two important documents, namely the EBA Action plan on sustainable finance ^[16] and a report on undue short-term pressure from the financial sector on corporations.^[17]

The EBA action plan outlines deliverables and activities related to ESG factors and ESG risks, and explains the phased approach and associated timelines for the reports, advice, guidelines and technical standards mandated to the EBA. The action plan also highlights some key policy messages on the topic of sustainable finance to provide some clarity to relevant financial institutions on the EBA's high-level policy direction and expectations about ESG risks. These expectations emphasise three areas – strategy and risk management, disclosure, and scenario analysis – where institutions are encouraged to consider taking steps before the EU legal framework is formally updated and the EBA's regulatory mandates delivered.

The EBA also actively contributed to the work of the Network for Greening the Financial System,^[18] a group of central banks and supervisors sharing best practices and contributing to the development of environmental and climate risk management in the financial sector.

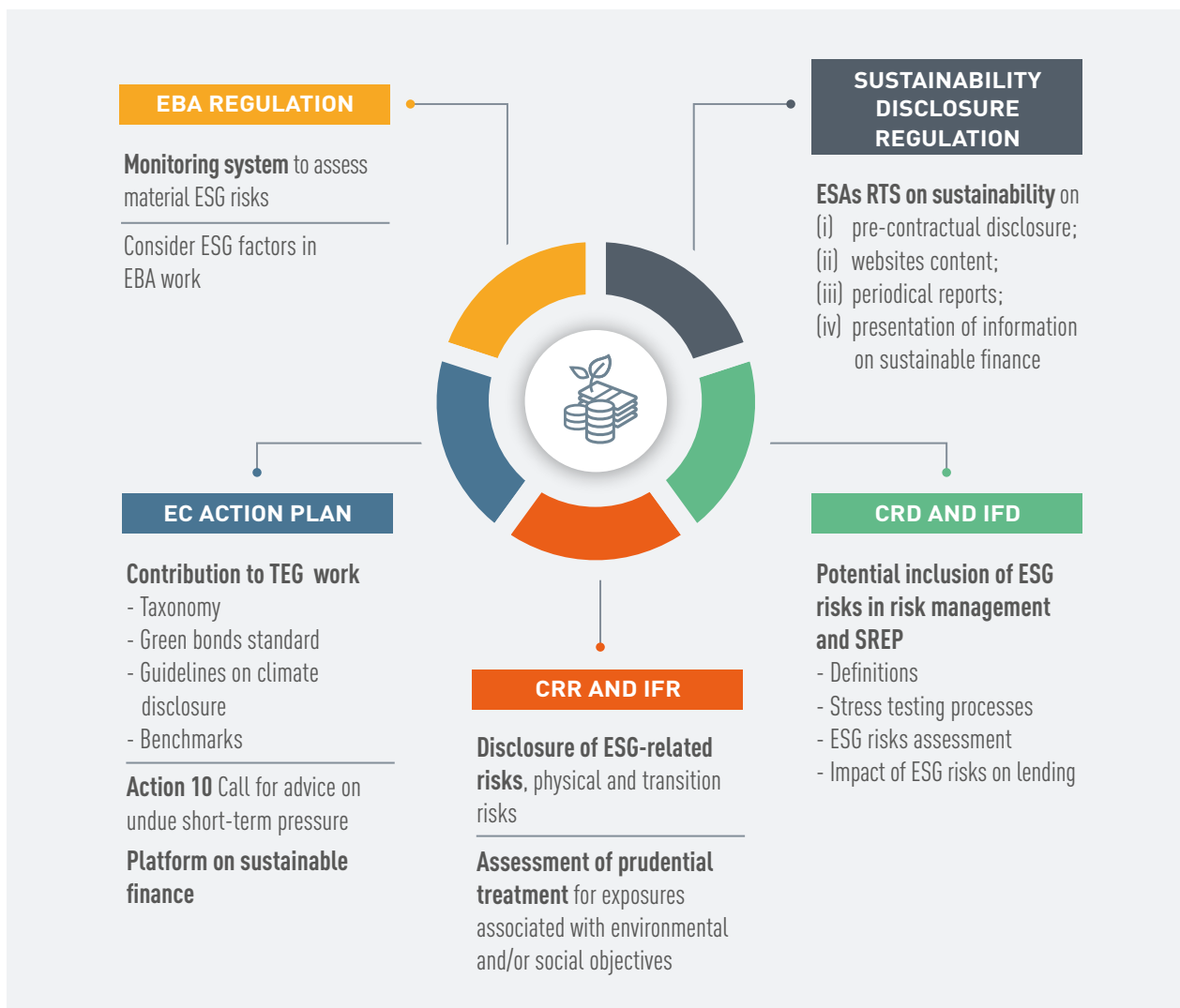
^[16] https://eba.europa.eu/sites/default/documents/files/document_library/EBA%20Action%20plan%20on%20sustainable%20finance.pdf

^[17] https://eba.europa.eu/sites/default/documents/files/document_library/Final%20EBA%20report%20on%20undue%20short-term%20pressures%20from%20the%20financial%20sector%20v2_0.pdf

^[18] <https://www.ngfs.net/en>

^[15] https://ec.europa.eu/info/publications/180308-action-plan-sustainable-growth_en

Figure 7: EBA mandates on sustainable finance



Analysing market practices and drivers of short-termism in the banking sector

As part of the third objective of the Commission’s action plan, and in particular based on Action 10 (i.e. fostering sustainable corporate governance and attenuating short-termism in capital markets), the EBA received a specific call for advice on the extent to which short-termism is present and whether or not it should be considered a problem. The EBA conducted relevant analysis and provided its findings in its report on undue short-term pressure from the financial sector on corporations. The report takes into consideration

three dimensions and perspectives that relate to short-termism: the banks’ perspective, the corporates’ perspective and the sustainable finance perspective. Overall, the EBA analysis identified limited concrete evidence of short-termism, but it cannot necessarily label it undue. The report provides policy recommendations advocating that policy action should aim to provide relevant information and incentives to encourage banks to extend the time horizons in their strategies and governance.

Building ESG considerations into the EBA's overall work

In line with its founding regulation, the EBA has to take into account sustainable business models and the integration of ESG factors when acting within its powers and when carrying out its tasks; it should develop a monitoring system to assess material ESG risks and common methodologies for assessing the effect of economic scenarios on an institution's financial position, taking into account risks stemming from adverse environmental developments.

The revised CRR 2/CRD 5 package includes specific mandates for the EBA in the area of sustainable finance. In particular, CRD 5 calls on the EBA to develop criteria for understanding the impact of ESG risks on the financial stability of institutions, to identify strategies and processes to manage these risks and to assess the potential inclusion of ESG risks in the SREP performed by competent authorities. CRR 2 introduces a requirement for large institutions to disclose information on ESG risks and for the EBA to include specifics of these disclosures in the technical standard on Pillar 3. CRR 2 also calls on the EBA to assess whether or not a dedicated prudential treatment of exposures related to assets or activities associated substantially with environmental and/or social objectives would be justified.

Similar mandates were included in the Investment Firms Regulation and Directive, based on which the EBA is to propose technical criteria related to exposures stemming from activities associated substantially with ESG objectives for the SREP. The Investment Firms Regulation include a mandate for the EBA to report on its findings regarding whether or not a dedicated prudential treatment of assets exposed to activities associated substan-



tially with environmental or social objectives, in the form of adjusted K-factors or adjusted K-factor coefficients, would be justified from a prudential perspective.

The ESAs have been also mandated by the new Regulation on sustainability-related disclosures in the financial services sector and the Taxonomy Regulation to prepare set of technical standards for ESG disclosures. In case of the banking sector, these disclosures will apply for credit institution with portfolio management license and include disclosures on principal adverse impacts of investment decisions, pre-contractual disclosure and website disclosure.

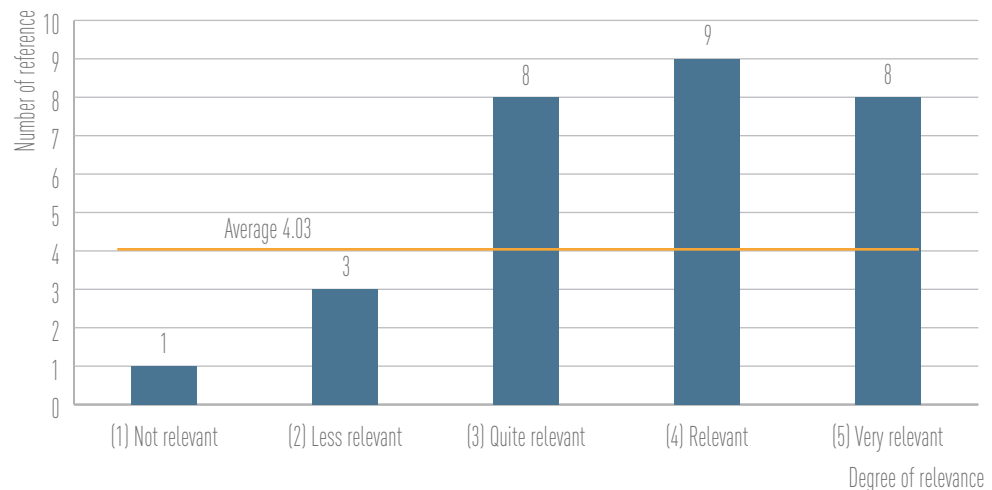
Protecting consumers and depositors and contributing to secure and convenient retail payments in the EU

Protecting consumers across the EU

The EBA’s work on consumer protection is aimed at reducing the extent of detriment that can arise when consumers purchase retail banking products and services. In addition to the supervisory convergence work set out in the section on [Convergence in the supervision of payment services and consumer protection requirements](#), the EBA published its consumer trends report for 2018/19, which described the trends that the EBA had observed in respect of the retail banking products and services within its regulatory remit. The report outlined the related issues and the applicable legislative and regulatory framework, including the measures that the EBA has undertaken to address them. Figure 8 below is one of the figures included in the Consumer Trend report and shows the relatively high importance of responsible lending and creditworthiness assessment for competent authorities and other stakeholders.

With the aim of providing input to the European Commission’s evaluation of the Distance Marketing of Financial Services Directive, the EBA also published an opinion on disclosure to consumers buying financial services through digital channels. Moreover, in fulfilment of its financial education and innovation monitoring mandates, the EBA developed a factsheet with key tips for consumers on choosing online or mobile banking services (Figure 9). Finally, in response to a request the EBA had received from the European Commission as part of the implementation of its Capital Market Union Action Plan, the EBA published a report on the cost and performance of structured deposits.

Figure 8: Relative importance of the topical issue ‘responsible lending and creditworthiness assessment’



Improving depositor protection across the EU

In 2019, the EBA fulfilled its mandate under Article 19(6) of the Deposit Guarantee Schemes Directive to support the European Commission in assessing progress towards the implementation of the directive in EU Member States. The EBA analysed how the current deposit protection rules are applied across the EU, identified challenges in real-life cases and put forward specific proposals to improve the framework. The findings were published in an opinion on the eligibility of deposits, coverage level and cooperation between deposit guarantee schemes (DGSs) and in an opinion on DGS pay-outs. The EBA also assessed the impact of risk-based contributions on different business models, which was covered, among other topics, in a third and final opinion, on DGS funding and uses of DGS funds. The Box 'Improving deposit protection for citizens in the EU' provides further details about the recommendations in the three opinions.

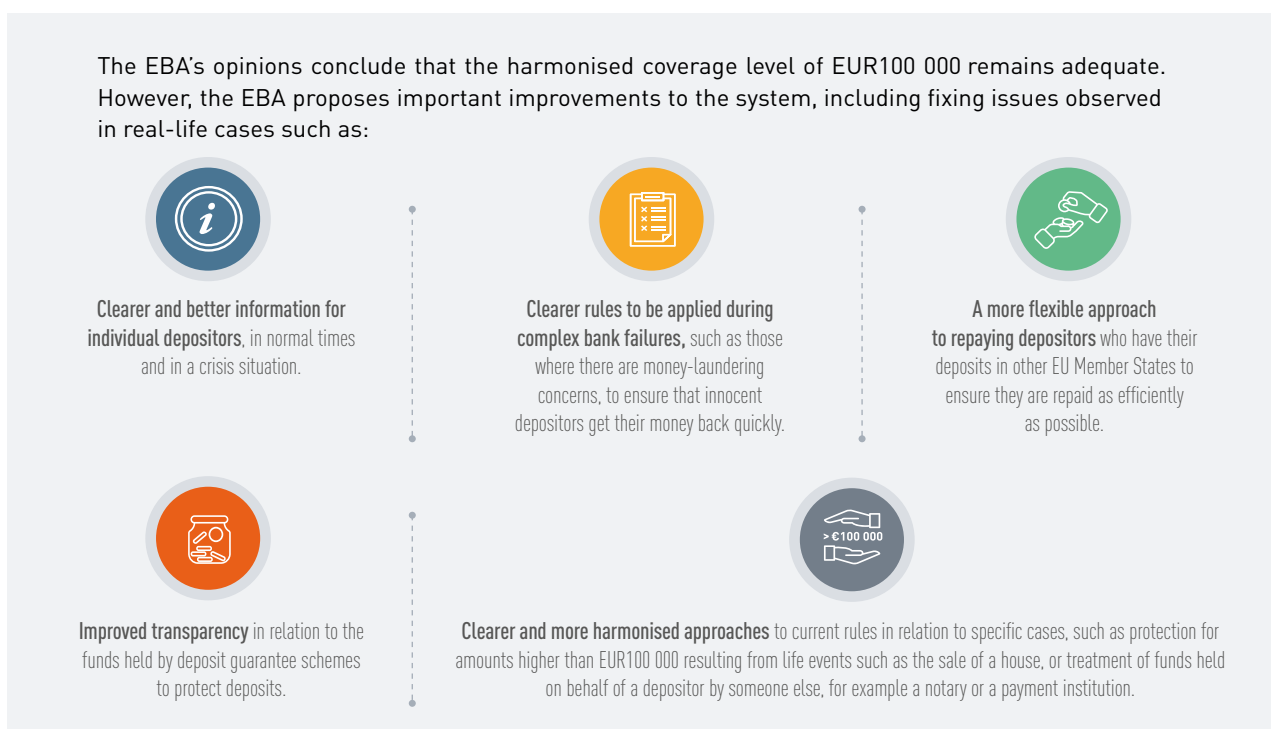
In 2019, the EBA also published an opinion on deposit protection issues stemming from the withdrawal of the UK from the EU, in which it called on DGS designated authorities to ensure that, in the event of a no-deal withdrawal, depositors at branches of UK credit institutions in the EU were adequately protected by EU DGSs.

Finally, the EBA also continued to collect and publish data on DGS available means and covered deposits and on the uses of DGSs' available financial means, including in relation to bank failures.

Figure 9: Factsheet for consumers on choosing online or mobile banking services



Figure 10: Benefits of deposit protection for EU citizens





IMPROVING DEPOSIT PROTECTION FOR CITIZENS IN THE EU



IVY JEUKEN

Policy Expert



SLAWEK KOZDRAS

Policy Expert

Deposit protection is a safety guarantee that ensures that depositors get their money back if their bank fails. It is important because it protects depositors and because it contributes to financial stability by significantly lowering the risk of bank runs. The EBA is mandated to contribute to strengthening the European system of national DGSs.

In 2019, the EBA supported the European Commission in assessing how the existing deposit protection rules are applied across the EU and, crucially, how they have fulfilled their aims in real-life cases since their introduction in 2014. The EBA analysed many aspects of deposit protection and concluded that the key element – the harmonised coverage level of EUR 100 000 – remains adequate.

The outcome of the assessment was published in three EBA opinions, with explanations of challenges identified and specific proposals on how to further improve the deposit protection rules, addressed to the European Commission. In total, the EBA proposed more than 80 changes to the current framework, including clearer and better information for individual depositors, clearer rules to be applied during complex bank failures (such as those where there are money-laundering concerns), a more flexible approach to repaying depositors who have their deposits in other EU Member States, improved transparency in relation to the funds held by DGSs, and clearer and more harmonised approaches in a number of technical areas. The EBA recommended that the European Commission consider the proposals made in the three opinions when proposing a revised Deposit Guarantee Schemes Directive. Furthermore, the opinions highlighted a number of important topics where further analysis is needed and where the EBA is well placed to conduct that analysis.

Working on the three EBA opinions provided an opportunity to see how the EU deposit protection framework works in practice and how it can be improved further. We enjoyed it thoroughly because looking at real-life cases provided fascinating insights and highlighted how important deposit protection is.



Contributing to the single EU retail payments market

In addition to the very extensive supervisory convergence work that the EBA carried out under PSD 2, described in the section on [Convergence in the supervision of payment services and consumer protection requirements](#), in March 2019 the EBA went live with its central register under PSD 2. The register provides aggregated information of all PIs and EMIs authorised or registered in the EEA, their agents and the services provided across borders. The register is free of charge and available in a machine-readable format. By the end of 2019, the register had seen a monthly average of 300 000 downloads and an additional 5 000 unique users accessing data through the web interface.

In April 2019, the EBA published an opinion on the nature of passport notifications of PIs and EMIs using agents and distributors located in

another Member State. This opinion sets out the criteria that competent authorities should use to determine if the appointment of agents or distributors in another Member State's territory amounts to an 'establishment'. Operating an establishment on another Member State's territory has stronger implications for PIs and EMIs under the Electronic Money Directive, PSD 2 and the AML Directive than the free movement of services..



The ESAs' cross-sectoral work under the Joint Committee

In 2019, the Joint Committee, under the chairmanship of EIOPA, continued to have a central role in coordination and exchange of information between the ESAs, the European Commission and the European Systemic Risk Board. Progress continued on work on other impor-

tant cross-sectoral areas such as improving consumer protection, monitoring financial innovation and cybersecurity, and combating ML/TF. The ESAs continued their preparation for the withdrawal of the UK from the EU.

Safeguarding consumer protection across financial services and monitoring financial innovation

Consumer protection and financial innovation figured prominently once again on the Joint Committee's agenda. In February 2019, the ESAs published their final recommendations following a consultation on targeted amendments to the delegated regulation covering the rules for the key information document for packaged retail and insurance-based investment products (PRIIPs). Having taken into account the feedback received and considering in particular the implications of a possible decision by the European co-legislators to defer the application of the key information document by certain types of investment funds to after 2020, the ESAs decided to not propose targeted amendments yet and instead to initiate a more comprehensive revision of the PRIIP Delegated Regulation. To this end, the ESAs contributed to a consumer testing exercise conducted by the European Commission, and a public consultation on the key information document on PRIIPs was launched in October 2019. The feedback on the consultation and the results of the consumer testing exercise will be taken into account when final proposals are published in 2020.

Furthermore, the ESAs issued a supervisory statement regarding the performance scenarios set out in the key information document on PRIIPs to promote consistent approaches and improve the protection of retail investors prior to the conclusion of the ongoing PRIIP

review. In accordance with the PRIIP Regulation, competent authorities must report to the ESAs on administrative sanctions or measures that they impose under the regulation and the ESAs must publish this information in the Joint Committee's annual report. Since the implementation of the PRIIP Regulation at the start of 2018 (covering 2018 and 2019), no administrative sanctions or measures have been reported to the ESAs.

In July 2019, the Joint Committee published a report on the cross-border supervision of retail financial services. In this report, the ESAs identified the main issues that national competent authorities face when supervising financial institutions that provide cross-border retail financial services within the EU and made recommendations to both national competent authorities and EU institutions on how to address them.

The 7th Joint ESAs Consumer Protection Day 2019 took place at the end of June in Dublin. The focus of the well-attended event was on (i) the ESAs and their financial education mandate – which way forward? (ii) the 2019 PRIIP review – challenges and opportunities ahead; and (iii) the integration of consumers' sustainability preferences into the distribution of financial products.

ESAs commence work on enhancing sustainable finance disclosures

The regulation on sustainability related disclosures in the financial services sector (the Sustainability-Related Disclosures Regulation (SFDR)) sets out ESG disclosure requirements for a broad range of financial market participants, financial advisers and financial products. The SFDR empowers the ESAs to deliver, through the Joint Committee, six technical standards, of which five are due by the end of 2020. These technical standards will cover both adverse impact reporting at

entity level and precontractual, website and periodic product disclosure. Against this background, the Joint Committee Sub-Committee on Consumer Protection and Financial Innovation decided to set up a new sub-group on ESG disclosures to develop these draft technical standards. The sub-group has progressed the development of a draft paper for consultation in 2020, with a view to finalisation by the end of 2020.

Cross-sectoral risks and overseeing market developments and vulnerabilities

The Joint Committee continued to act as an important forum for discussions on market developments and in-depth analysis of emerging risks, identifying the main areas of supervisory concern across the EU in its biannual cross-sectoral risk reports.

The spring risk report highlighted several risks as potential sources of instability, namely a sudden repricing of risk premia, as witnessed following a spike in volatility and associated market corrections; continued uncertainty around the terms of the UK's withdrawal from the EU; and cyberattacks. The report also reiterated the ESAs' warning to retail investors investing in virtual currencies and raised

awareness of risks related to climate change and the transition to a lower-carbon economy.

In the autumn risk report, the Joint Committee highlighted the risk of persistently low interest rates, which continue to put pressure on the profitability and returns of financial institutions, causing return of search-for-yield behaviour. The report also highlighted the need for a transition to a more sustainable economy and the need to consider ESG-related risks, leading to possible challenges to the viability of business models with high exposure to climate-sensitive sectors. Finally, the report once again encouraged institutions to prepare contingency plans for Brexit.





Anti-money laundering/ countering the financing of terrorism

The focus of the Joint Committee in the area of AML/CFT was on the implementation of the Council's AML action plan, published in December 2018. The plan put an emphasis on improved supervisory cooperation among AML/CFT supervisors and also between AML/CFT and prudential supervisors. Therefore, the Joint Committee took forward work on developing own-initiative guidelines on supervisory cooperation, which were published in December 2019. With these guidelines, the ESAs have developed a formal framework for supervisors to cooperate and exchange information in respect of firms operating on a cross-border basis within AML/CFT colleges.

Furthermore, in October 2019 the Joint Committee issued its second joint opinion on the ML/TF risks affecting the EU financial sector. Drawing on data and information provided by national AML/CFT competent authorities, the ESAs found that the monitoring of transactions and suspicious transaction reporting still raise concerns, particularly in sectors

where financial institutions' business models are based on frequent transactions. The opinion aimed to develop a better understanding of ML/TF risks within the EU, thus strengthening the EU's defences against these risks.

In addition, the ESAs continued their review of the risk factors guidelines, which was necessary to ensure that they were brought into line with the 5th AML Directive (which had to be transposed by the Member States by 10 January 2020) and to address risk factors in sectors that were not yet covered by the guidelines. The consultation on the amended guidelines began in February 2020.

Finally, following the review of the ESAs and changes introduced to the ESA regulations, as of January 2020 the EBA became the responsible ESA for AML/CFT matters. While work related to AML/CFT is no longer within the scope of the Joint Committee's work, EIOPA and ESMA will remain closely involved in AML/CFT work related to their respective sectors.

Monitoring of financial conglomerates

In 2019, the Joint Committee published its annual list of financial conglomerates, showing 77 financial conglomerates with the head of group in the EU/European Economic Area (EEA), one financial conglomerate with the head of group in Switzerland, one in Bermuda

and one in the United States. In addition, the Joint Committee published a consultation paper on proposed draft technical standards for reporting templates for conglomerates on intra-group transactions and risk concentration.

Innovation and FinTech

Under the umbrella of the Joint Committee, the ESAs set up EFIF, following the publication in January 2019 of the joint ESA report on regulatory sandboxes and innovation hubs. The report identified a need for action to promote greater coordination and cooperation between innovation facilitators to support the scaling up of FinTech across the single market. EFIF provides a platform for supervisors to meet regularly to share experiences from engagement with firms through innovation facilitators (regulatory sandboxes and innovation hubs), to share technological expertise and to reach common views on the regulatory treatment of innovative products, services and business models, thus boosting bilateral and multilateral coordination.

Furthermore, in April 2019, the ESAs published two pieces of joint advice in response to requests made by the European Commission in its FinTech action plan, one on legislative improvements relating to ICT risk



management requirements and another on a coherent cyber-resilience testing framework. The ESAs' objective is that every relevant entity should be subject to clear general requirements on governance of ICT, including cybersecurity, to ensure the safe provision of regulated services.

Coordination on securitisation

In 2019, the new Securitisation Committee under the Joint Committee began its work on aiding EU competent authorities to coordinate their duties under the Securitisation Regulation by serving as a forum to discuss practical/

operational issues related to their supervision and enforcement duties, thus ensuring cross-sectoral consistency and promoting supervisory best practices.

Other relevant cross sectoral Joint Committee work

In May 2019, the Joint Committee published a second amendment to the technical standards on the mapping of credit assessments of external credit assessment institutions for credit risk under the CRR. The amendment reflects the outcome of a monitoring exercise on the adequacy of existing mapping. The technical standards on the mapping of external credit assessment institutions under Solvency II were consulted on in 2019 and will be published in the first quarter of 2020.

In December 2019, the Joint Committee published the final report on draft RTS proposing to amend the Commission delegated regula-

tion on the risk mitigation techniques for over-the-counter derivatives not cleared by a central counterparty (bilateral margin requirements) under the European Market Infrastructure Regulation. The draft RTS propose, in the context of the UK's withdrawal from the EU, the introduction of a limited exemption to facilitate the novation of certain over-the-counter derivative contracts to EU counterparties during a specific time window. The amendments would apply only if the UK were to leave the EU without the conclusion of a withdrawal agreement (in a no-deal scenario). The draft RTS complemented the similar proposal published by ESMA on 8 November with respect to the clearing obligation.

Board of Appeal

The ESAs provided secretarial support to the Board of Appeal. In 2019, there were two appeal cases, one brought against ESMA and another brought against the EBA.

In March 2019, the Board of Appeal issued its decision on the appeals brought by four Swedish banks against decisions of the Board of Supervisors of ESMA. The ESMA Board of Supervisors found that the Credit Rating Agencies Regulation had been negligently infringed by the banks because they had included shadow ratings in their credit research reports. It adopted supervisory measures in the form of public notices and fines of EUR 495 000 for each bank. In deciding the appeals, and in summary, the Board of Appeal upheld the decision of ESMA's Board of Supervisors on the central question, which was if the banks' credit research reports fell under the Credit Rating Agencies Regulation, but held that the

banks (which had voluntarily desisted during the course of ESMA's investigation) had not acted negligently.

In October 2019, the Board of Appeal published its decision on the appeal by the credit rating agency Creditreform AG against the EBA. The German credit rating agency had appealed challenging the adoption by the Joint Committee of certain draft ITS proposed for endorsement by the European Commission. The Board of Appeal dismissed the appeal as inadmissible, in accordance with the settled case law of the Court of Justice of the European Union establishing that acts having a preparatory nature, such as the draft ITS, are not subject to autonomous judicial or quasi-judicial review but subject to review through a check of the legitimacy of the final act adopted by the European Commission.

ANALYSING RISKS, VULNERABILITIES AND DATA

Identifying and analysing trends and potential risks and vulnerabilities

Investigating fiscal arbitrage issues

Following the adoption on 29 November 2018 of a resolution by the European Parliament, 'On the cum-ex scandal: financial crime and loopholes in the current legal framework', the EBA looked at dividend arbitrage schemes from an AML/CFT perspective as well as from a more general perspective of prudential supervision. In particular, the EBA launched two enquiries addressed to AML/CFT and prudential supervisors in May 2019 and July 2019. On the basis of the findings of these enquiries,

the EBA will develop an action plan including amendments to a number of guidelines – such as the guidelines on internal governance, the governance section of the SREP guidelines, the guidelines on the assessment of the suitability of members of the management body and key function holders, and the guidelines on AML/CFT risk factors – and specific monitoring of supervisory colleges in respect of how risks arising from dividend arbitrage trading schemes are addressed.



OLEG SHMELJOV

Senior Policy Expert



THE EBA'S WORK ON THE UK'S WITHDRAWAL FROM THE EU

In 2019, the EBA continued closely monitoring Brexit-related developments with a view to understanding the potential risks to EU banks and consumers, ensuring the preparedness of the EU banking sector for the withdrawal and providing adequate information to EU consumers. As part of its risk analysis and monitoring work, the EBA, together with the relevant competent authorities, continued to monitor the preparedness and execution of contingency plans of EU bank, payment and electronic money (e-money) institutions. In October 2019, the EBA publicly stressed in a dedicated communication the need for institutions to ensure the execution of their contingency plans and their establishment in the EU in accordance with the plans agreed with their respective competent authorities. Furthermore, the EBA stressed the need for Brexit-affected institutions to ensure adequate communication of Brexit-related risks, plans and changes to their EU customers.

Furthermore, in March 2019, the EBA issued its third Brexit-related opinion, this time focusing on deposit protection issues and the need to

ensure adequate coverage and protection of customers' deposits held in branches of UK credit institutions in the EU as well as the provision of adequate information to such depositors.

In view of the possibility of the UK withdrawing from the EU without a ratified withdrawal agreement, the EBA developed a template for a memorandum of understanding outlining provisions on supervisory cooperation and information exchange between the EU supervisory authorities and the UK Prudential Regulatory Authority and Financial Conduct Authority. This common template served as the basis for the actual bilateral memoranda of understanding that were negotiated and signed by the relevant EU competent authorities and the UK authorities. The template covered both general principles of information exchange and supervisory cooperation and specific aspects of cooperation in performing the most common supervisory task, thus ensuring that there would be no breakdown in the supervision of cross-border banks operating both in the EU and in the UK.



Assessing risks and vulnerabilities in the banking sector

One of the vital roles of the EBA is to contribute to securing the stability, integrity, transparency and orderly functioning of the EU banking sector. To achieve this, the EBA monitors and assesses market developments, identifying potential risks and vulnerabilities across banks in the European banking sector. The assessments of these risks and vulnerabilities trigger policy actions, when deemed necessary.

A fundamental tool that is used to carry out these assessments is the annual risk assessment report (RAR). The 2019 RAR describes the main developments and trends in the EU banking sector since the end of 2018 and sets out the EBA's viewpoint on the main risks and vulnerabilities. In addition, the report serves as an accountability tool and fulfils the EBA's responsibilities to monitor and assess market developments and provide information to other EU institutions and the general public. To achieve this, the report looks at quantitative data in the form of the supervisory reporting data submitted to the EBA on a quarterly and semi-annual basis by competent authorities for a sample of 183 banks from 30 EEA countries – covering an estimated 80% of the

total assets of the EU banking sector – and other market data. In addition, the RAR uses qualitative sources of information such as the EBA's risk assessment questionnaire (RAQ), addressed to banks and market analysts, as well as microprudential qualitative information and supervisory college information.

The 2019 RAR found that EU banks' solvency ratios had remained stable, while the NPL ratio had further contracted during the year. EU banks' assets rose by 3% between June 2018 and June 2019, strongly supported by consumer lending and lending to small and medium-sized enterprises (SMEs). The RAR acknowledges banks' focus on rather riskier segments as a result of their search for yield in an environment of shrinking margins and low interest rates. The latter supported funding conditions, which have improved amid historically low levels of yields and narrowing spreads. Nonetheless, profitability remains at low levels and, for many banks, return on equity is still below their cost of equity. In addition, the pervasiveness of technology in digitalised banking and the increasing numbers of ML/TF cases are some of the key drivers of constantly elevated operational risk.

Monitoring the developments of the EU banking sector

The RAQ, the results of which are published on a semi-annual basis, forms another important monitoring and assessment tool used by the EBA to identify the main risks and vulnerabilities in the EU banking sector. The questionnaire surveys banks and market analysts on a number of topics including business models, profitability, asset quality, funding, FinTech and green finance. The responses received provide a thorough reflection of market participants' views on current and forthcoming developments in the EU banking sector. The number of banks providing their views through the EBA's RAQ in 2019 was 65, covering 25 countries.

The quarterly risk dashboard remained in 2019 a flagship tool to support the EBA's regular risk assessments and enable it to fulfil its role as a data provider. Throughout 2019, the risk dashboard consistently confirmed regarding the EU banking system weighted averages for the Common Equity Tier 1 (CET1) fully loaded ratio of over 14%, an NPL ratio declining to below 3% and subdued profitability with return on equity hovering around 7%. In line with the evolution of the EBA supervisory reporting platform, and as part of a continuous improvement process, the 2019 version of the EBA risk dashboard reviewed its list of risk indicators and introduced for the first time IFRS 9-related data on asset quality and banks' fair-valued positions, as well as information about their sovereign exposures.

The EBA also relies on market data, market intelligence and supervisory reports to support its board decisions and to provide information to other public authorities. As part of its regular activities, the EBA produces an overview of liquidity and funding as well as a financial market thermometer. These weekly products focus on market developments and analysts' views and are used to closely and frequently monitor developments in EU banking sector.

Besides these regular assessments, the EBA dedicates additional resources to annual thematic risk reviews, such as on banks' funding plans and asset encumbrance. These two reports monitor the composition of funding



sources across the EU through a forward-looking analysis of banks' future funding plans and through an assessment of the level of asset encumbrance. Together, they help EU supervisors to assess the sustainability of banks' main sources of funding. The results of the funding plans assessment in 2019 showed that banks plan to increase debt issuances over the next 3 years, in particular issuances of unsecured debt instruments. The asset encumbrance report showed a stable overall weighted average asset encumbrance ratio in 2018, which is positive for the funding structure of the banking sector. The reports were published simultaneously in July 2019.

In addition, the EBA reports on progress made and challenges ahead in relation to NPLs, assessing the main trends in asset quality. Moreover, the EBA regularly provides ad hoc analyses on particular topics of interest to inform board discussions on risks and vulnerabilities. For example, during 2019 the Sub-Group on Vulnerabilities concentrated on two main topics, namely consumer lending and leveraged finance.

The EBA's ongoing work on NPLs: Guidelines on loan origination and monitoring and EBA report on asset quality

Under the framework of the Council's action plan on NPLs, the EBA developed and finalised a number of initiatives. These included NPL transaction templates, guidelines on management of NPEs and FBEs, and guidelines on disclosure of NPEs and FBEs.

In addition, in May 2020, the EBA published guidelines on loan origination and monitoring, which were the EBA's final product under this framework.

While the previous initiatives had aimed to address the stock of NPLs on institutions' balance sheets, the objective of the guidelines on loan origination and monitoring is to ensure that institutions have robust underwriting standards to prevent newly originated loans from becoming non-performing in the future. In this respect, these guidelines are forward-looking with regard to NPLs and complementary to the previous EBA and EU-wide initiatives.

In this regulatory product, the EBA combines prudential standards for credit risk, and in particular loan origination, and consumer protection measures. The regulatory product introduces guidance on institutions' internal governance; loan origination procedures, including borrower creditworthiness assessments; pricing; collateral valuation; and monitoring. The guidelines also reflect supervisory priorities and recent policy developments in the area of credit granting, including in relation to AML/CFT, environmentally sustainable finance, models for credit granting and collateral valuation, and technology-enabled innovation.

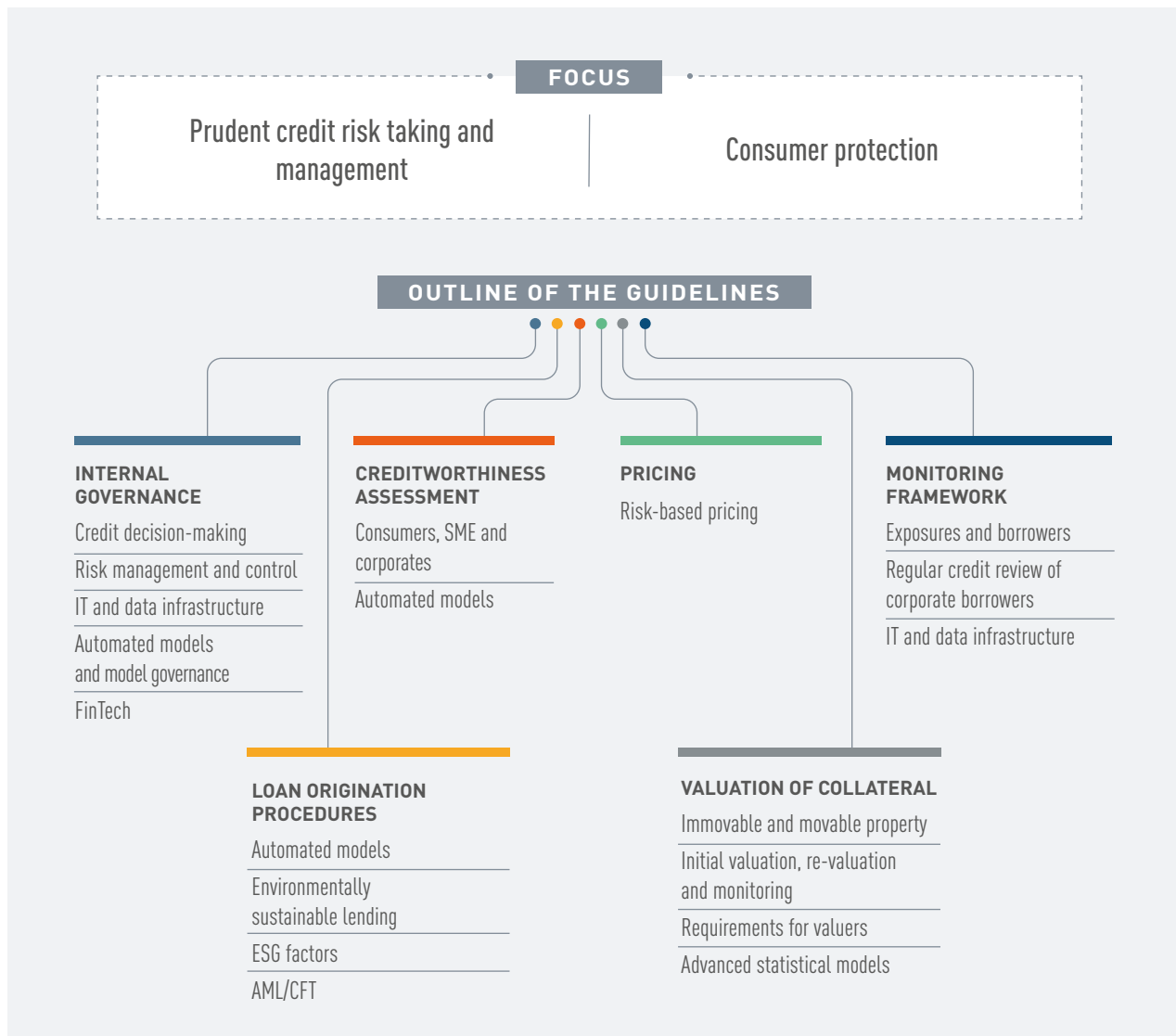
All the requirements in the guidelines are addressed to credit institutions, and the requirements on loan origination procedures, as per the EBA's new powers under its revised founding regulation, are also addressed to creditors that are not credit institutions.

The EBA's work on risk analysis supports and complements its regulatory efforts to tackle NPLs in Europe. In November 2019, the EBA published a report on trends in asset quality in the EU banking sector. The statistics showed that the situation with NPLs has significantly improved over the past 4 years. The level of NPLs decreased from over EUR 1.15 trillion in June 2015 to EUR 636 billion in June 2019. The NPL ratio fell to 3%, the lowest ratio since the EBA introduced a harmonised NPL definition across European countries. The coverage ratio increased slightly, from 43.6% to 44.9%, over the same period.

The EBA report identified three key factors that determined the overall reduction in NPLs: (i) supervisory attention and political determination to address the issues around NPLs, (ii) institutions' efforts to improve their NPL management capabilities and (iii) the macroeconomic environment, including positive economic growth, low interest rates and decreasing unemployment.

Despite the significant improvement, NPLs remain a concern for a number of Member States. The dispersion of NPL ratios across countries is still wide and seven countries had an average NPL ratio above 5%. In comparison, in June 2015, 17 countries reported an NPL ratio above 5%, and 10 of those countries had a double-digit ratio. The report also finds that countries with high NPL ratios have larger shares of past-due buckets of 1 year or more and that these older NPLs are harder to cure, are considerably devalued and pose a significant risk to those institutions that have a large share of such assets on their balance sheets.

Figure 11: The EBA’s comprehensive approach to loan origination



Preparing for the 2020 EU-wide stress test

The EU-wide stress test is an important tool used by competent authorities to assess banks’ resilience to relevant economic and financial shocks and their capital needs, as well as to identify residual areas of uncertainty and appropriate mitigation actions. In addition, the exercise strengthens market discipline through the publication of consistent and granular data on a bank-by-bank level.

The Board of Supervisors decided in its December 2018 meeting to run a stress test in 2020, and therefore significant preparatory work began in 2019 for the 2020 EU-wide

stress test. The exercise was launched in January 2020; however, because of the coronavirus outbreak, it has been decided to postpone the exercise until 2021. Most of the 2019 workstream was focused on drafting and publishing a methodological note and templates to be used in the exercise. Following the publication of the draft methodology and templates in late June 2019, the EBA launched a discussion on the package, which lasted until the end of August 2019. The EBA also organised a workshop with the industry on 9 September to discuss the comments with the banks. Taking into account the industry’s comments, where

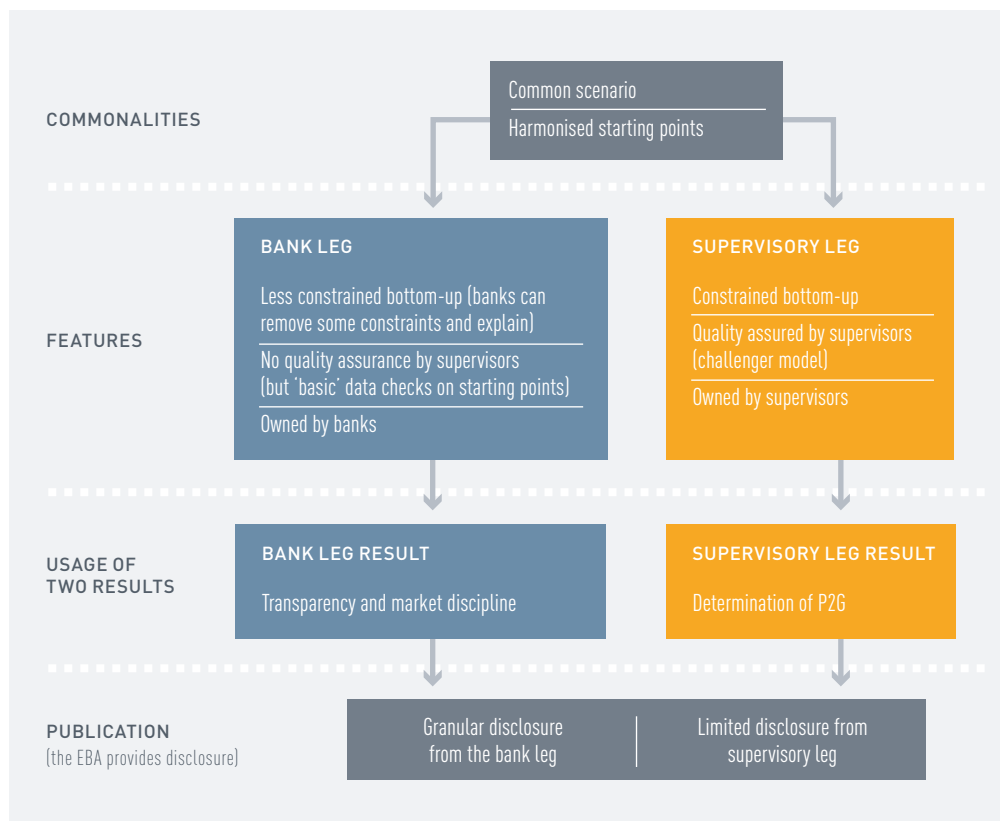
appropriate, the final methodology was published at the beginning of November 2019. After a period of testing the templates, the final version was published in mid-December 2019.

The 2020 exercise was planned to be very much in line with the one that was run in 2018. The aim was to keep the methodology as stable as possible, while improving some aspects based on lessons learned and banks' feedback. There were no fundamental changes to the approach; the EU-wide stress test will continue to follow a constrained bottom-up approach, act as a key input for the SREP and be a comprehensive disclosure exercise. The general principle that was followed in the revision process was to simplify the methodology and streamline the templates and, at the same time, clarify aspects that had been prone to misinterpretation in 2018. An important novelty was introduced in the disclosure part, as it was agreed to start the disclosure of Pillar 2 requirements for each bank. The 2020 EU-wide stress test exercise was planned to be conducted at the highest level of consolidation and to cover a sample of 51 banks – 35 from SSM countries – covering approximately 70% of EU banks' total assets.

Postponement of the 2020 stress test exercise and the discussion on future changes to the framework

The 2020 EU-wide stress test exercise was officially launched on 31 January 2020, along with the FAQs process for banks, to facilitate the interpretation of the methodology, and the publication of the macrofinancial scenario. However, the outbreak of COVID-19 and its global spread since February have created significant immediate challenges for society and risks for the economic outlook. EU banks implemented measures to ensure business continuity and adequate service to their customers, but they were facing operational challenges, hence the need to focus on their core operations and critical functions. Since addressing any operational challenges banks may face – especially ones connected with servicing customers – should be the priority, the EBA decided on 12 March 2020 to postpone the EU-wide stress test exercise to 2021. The EBA will carry out an additional EU-wide transparency exercise to provide updated information on banks' exposures and asset quality to market participants. In 2020,

Figure 12: Proposed framework for the EU-wide stress test, with a two-legged approach



the EBA will also take any necessary steps to execute the postponed exercise in 2021.

In addition, the focus for 2020 will be on future changes to the EU-wide stress test framework. On 22 January, the EBA published a discussion paper on future changes to the EU-wide stress test, launching a public consultation. The aim is to present the EBA's vision of the future of the EU-wide stress test and to collect comments and

feedback from the various stakeholders. The consultation will run until 30 June 2020. Following the public consultation, the EBA will assess the introduction of potential changes, which will be followed by a Board of Supervisors' decision by 2021. If the final assessment shows that changing the current framework would bring few benefits or would even diminish its current advantages, the EBA will consider keeping the EU-wide stress test framework as it is.



THE EBA IS GETTING GREENER

How different is working on climate risk from other risks?

Working in the EBA risk analysis team has always required a high degree of flexibility to adapt to the changing financial environment. We frequently need to develop up-to-date risk assessment tools to detect new risks affecting the banking sector. After almost 8 years working on stress test and risk analysis, it was natural to develop such a skill. When it comes to climate risk, this becomes very challenging, as the tools that are needed to quantify these risks are still under development.

Working on climate risk means progressing step by step and in the meantime trying to quickly learn as much as you can. In particular, one needs to think outside the box and become familiar with new concepts not directly linked to banking analysis. At the end it all has to square.

At the EBA, we already started developing a climate risk assessment framework to comply with the new mandate coming from the CRR/CRD. The lack of data remains a key issue, as well as common definitions able to combine financial risks and sustainability. However, starting from scratch has its own advantage: it allows us to better design the fundamentals.

Addressing climate risk is not only a financial stability issue; it touches more directly our daily lives, and that's why it is even more interesting and inspiring.

What are the forthcoming tasks for the EBA risk analysis unit in the coming years concerning climate risk assessment?

As stated in the EBA action plan on sustainable finance, the EBA is planning to embed climate risks in its stress test framework. Since stress-testing tools for climate risk are being developed, incorporating climate risk in a fully fledged EU-wide stress test is a challenging task.

In the light of this, the EBA will run, in 2020, a sensitivity analysis for climate risk on a sample of volunteering banks. This will be a learning exercise and the outcome will be used as a starting point for future EBA work on climate risk. The scope of the exercise will be limited to corporate exposures towards EU counterparties, to which the EBA will

apply different data classification approaches, highlighting pros and cons. In addition, banks will be asked, on a best-effort basis, to classify the related exposures according to the EU green taxonomy. The disclosure of the results will be aggregated at EU level and parts of them will be disclosed through the EBA risk assessment report (RAR), and a more comprehensive EBA report will be published in Q1 2021.



Benchmarking national loan enforcement frameworks

In January 2019, the EBA received a call for advice from the European Commission on benchmarking of national loan enforcement frameworks. The call stemmed from the Commission's communication on completing the Banking Union (October 2017) and followed up on the Council's request in the context of its action plan to tackle NPLs in the EU (produced by the Economic and Financial Affairs Council in 2017). The purpose of the exercise is to understand the efficiency of country-level loan enforcement procedures in terms of recovery rates and times to recovery. The requested work should provide insights into formal enforcement procedures, both those initiated by creditors individually and collective insolvency proceedings. The EBA was invited to conduct an ad hoc data collection and analysis. Information was collected on a representative sample of institutions and loans during the second half of 2019, covering all EU Member States and the following asset classes: corporate, SME, commercial real estate, residential real estate, retail credit cards and retail consumer credit. The main purpose is to present EU benchmarks for the main variables of interest, namely recovery rate, time to recovery and judicial cost to recovery. This is the first time that this information has been collected at loan level across the EU.

As a complementary analysis to the calculation of the EU benchmarks, in 2020 some additional information will be collected on indicators that explain the key characteristics that define national loan enforcement regimes. These data will be gathered mostly using questionnaires^[19] and publicly available information. The most significant factors that explain the differences in recovery outcomes will then be compared against the EU benchmarks. National loan enforcement regimes vary significantly across Member States, in terms of the range of enforcement processes available, the scope and consistency of application, and the efficiency of court proceedings. Another key aspect will be studying the potential impact on the banking system. The assessment of key features of national loan enforcement regimes and the identification – from a creditor perspective – of efficient debt enforcement practices could shed some light on why there are significant differences in debt recovery outcomes across the EU.^[20]

^[19] For instance, the study from the European Commission in 2019, [Analysis of the individual and collective loan enforcement laws in the EU Member States](#)

^[20] Data quality issues during the preliminary phase of the exercise suggested that the results of the analysis needed to be interpreted with caution and that additional time given to the participating banks was necessary to improve the quality of the data.

Defining, collecting and analysing banking data and promoting market discipline through transparency and disclosure

Enhancing and updating a robust supervisory reporting framework with increased proportionality and efficiency

In November 2019, the EBA published its roadmap on supervisory reporting. The roadmap provides an overview of the strategy in the short and medium term, and of the timeline, process and deliverables that the EBA is implementing in relation to the new regulations and its upcoming mandates. The roadmap also presents a strategy to address the need for greater proportionality and to ensure that the framework remains efficient.

In 2019, the EBA developed ITS covering the amendments to Regulation (EU) No 680/2014 (the ITS on supervisory reporting) on FINREP, the liquidity coverage ratio, securitisations (COREP), data for the purpose of benchmarking internal models and data for resolution planning purposes. The EBA published the ITS and submitted them to the European Commission for adoption.

The regulatory package introducing risk reduction measures was completed in 2019 and brought about significant changes in regulation. The EBA therefore started to revise the supervisory reporting framework. First, it published a set of consultation papers updating the current reporting frameworks on funding plans and addressing the amendments to the NPL Backstop Regulation (Regulation (EU) 2019/630 amending Regulation (EU) No 575/2013), which sets out minimum loss coverage for NPEs, and CRR 2 (Regulation (EU) 2019/876), which implements amendments relating to a number of key policy areas including credit risk, counterparty credit risk, the leverage ratio and large exposures.

Second, the EBA published a consultation paper on a new reporting and disclosure package implementing the Financial Stability Board's total loss-absorbing capacity (TLAC) standard in the EU and complementing the minimum requirement for own funds and eligible liabilities (MREL) that has been in force since 2014.

Third, the EBA started work on a feasibility study on the integrated reporting system, which will be finalised in various phases between 2020 and 2022. The objective of the work, under Article 430(c) of the CRR, is to identify shortcomings, prepare a report on feasibility regarding the development of a consistent and integrating system for collecting statistical data, resolution data and prudential data and report its findings to the European Commission, with a view to reducing the administrative and financial burden, both for the authorities and for the institutions and to improving the overall efficiency of the statistical, resolution and supervisory reporting.

Finally, the EBA also started work on a study of banks' costs of compliance with the ITS on supervisory reporting, with the aim of finding ways to reduce such reporting costs primarily for small and non-complex institutions. This study forms a part of the wider EBA drive for more proportionality in the regulatory framework and is performed in accordance with the specific mandate of Article 430(8) of the CRR. The task is expected to be finalised in 2021.

Figure 13: A pathway for more efficient and proportionate supervisory reporting



Expanding harmonised reporting to resolution

In April 2019, the EBA adopted and published its decision on reporting of resolution data from resolution authorities to the EBA.

Commission Implementing Regulation (EU) 2018/1624 provides clarity to resolution au-

thorities on the procedures and standard forms and templates they should use when collecting data and information for the purposes of drafting resolution plans. In 2019, the EBA received the first round of submissions.

Strengthening the EBA’s role as an EU data hub

Collecting and disseminating data for the entire population of EU banks are important to provide transparency on the EU financial system. For this purpose, a reliable, secure and efficient platform to collect supervisory data from all EU/EEA banks is crucial. On a short-term basis, building such a platform may be challenging for the EBA, the competent authorities and the banks, but the long-term benefits of a database with data for all EU banks will be worth the effort. It will allow deeper analyses of the financial sector, which in turn will help in making the whole European banking system more transparent and healthy, thus preventing risks affecting the EU public.

Finally, it will also help in the creation of a harmonised regulatory and supervisory framework for banking in the EU.

To be able to collect supervisory data, it is important first to collect solid information on financial institutions and their characteristics. These master data form an essential part of the EBA’s database, as they are a prerequisite for ensuring correct data reporting requirements are set for institutions. In 2019, the EUCLID project significantly contributed to the development of the EBA’s EU hub for banking data, with the master data collected being offered to supervisors and public users as a

source of up-to-date information for checking the status and details of credit, payment and e-money institutions. Furthermore, building upon these newly available EUCLID master data, an extended set of banks' characteristics will be collected during 2020 for the entire EU banking population. These supervisory master data will then be used to determine the reporting obligations for the collection of supervisory data, which until now has been done through a separate channel. Thanks to automatic checks, the supervisory master data will also be of higher quality. With the characteristics of the EU banks in place, the EBA will be able to open the gates to receive supervisory data for the whole EU banking population in 2021.

Even though much work in 2019 was invested in the EUCLID project, the EBA still managed to deliver on its mandates on data collection. The published list of official EBA validation rules was increased by more than 1 000 new rules, bringing the total number of published validation rules to nearly 5 000, which helped in increasing data quality. The fact that the ratio of failing checks to active checks kept decreasing shows that all the work put into improving data quality is bearing fruit.

But a data hub is not a data hub unless data not only flow in but also, more importantly, flow out. Any data hub therefore needs to provide its stakeholders not only with a comprehensive set of data for various data analyses but also with ways of extracting and using the riches of the data mine. With the rapid growth in data collected, and to prepare for the expansion of the sample to the full EU banking population, the EBA continued to facilitate methods of exploiting the data. One example is the memorandum of understanding on sharing data on individual banks. With this, the EBA continued its support to the EU supervisory authorities by exchanging information on the full set of risk indicators computed at the EBA for around 200 of the largest banks in the EU, to create an environment of sharing and transparency. Further to this, the EBA continued to improve the analytical tools for extracting information. On the EBA's website, the public can find user-friendly tools for different topics and risk areas, which allow users to explore comparable bank-by-bank figures through maps, tables and graphs. One such successful tool is the interactive tool for the analysis of the risk indicators, with a new version published together with each quarterly

By continuing to make more data available to supervisors, policy-makers and the public, the EBA aims not only to strengthen its own role as the EU's data hub, but also, more importantly, to provide information on the health of the EU financial system. The work on constructing a reliable database for the entire EU banking population will therefore continue to be one of the EBA's priorities.

risk dashboard; the EBA also made available tools for analysing the published data from the 2019 transparency exercise.

How to use the risk dashboard interactive tool was one of the topics addressed during the EBA's dedicated full-day workshop on accessing and utilising supervisory data. This workshop, which was held in July, also covered how to make best use of the analytical tool Power BI when performing analysis on the data, as well as other data usage topics. Helping national supervisors and others to use the data is an important step in promoting the EBA as a leading hub for EU banking data and continuing to ensure the disclosure of data on the banking sector.

In addition, in the context of CRR 2, the EBA is coordinating a feasibility study regarding the development of an integrated system to collect statistical, supervisory and resolution data.





TAJA SECNIK

Statistician



FINALISING EUCLID AND THE EBA'S REGISTERS

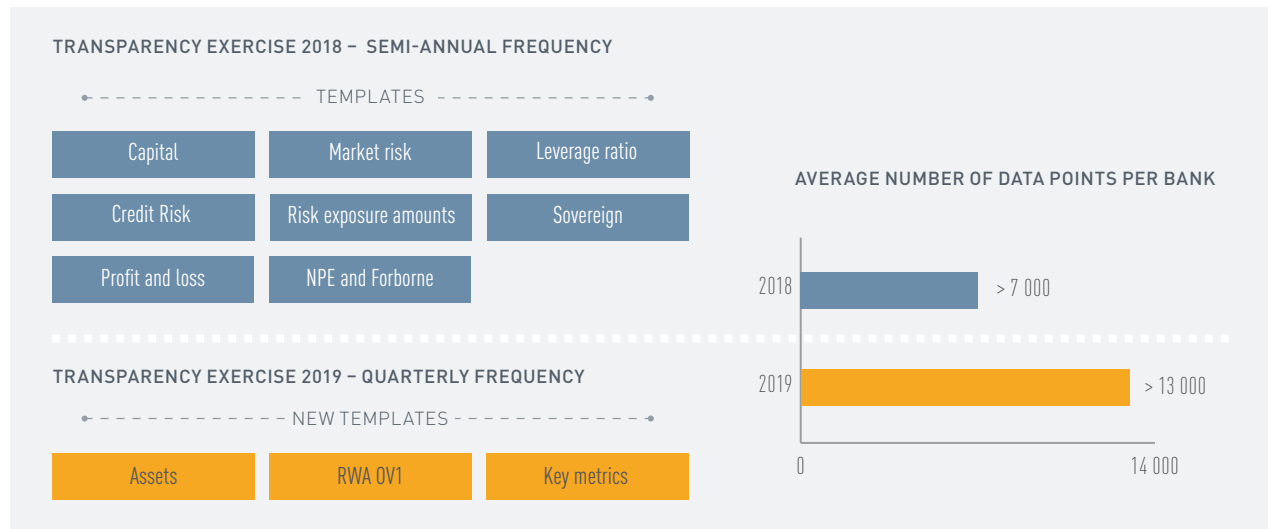
The European Centralised Infrastructure for Supervisory Data (EUCLID) is the EBA's new data collection platform, which will allow the EBA to collect data from the EEA competent authorities for all credit institutions and banking groups in the area. This means that the sample of institutions for which the EBA collects data will be expanded from around 200 of the largest institutions in the EEA to the full universe of credit institutions and banking groups in all EEA member states. Various other data collections, such as of banking resolution data, will take place through the same platform to ensure a high degree of data quality, a reduced burden for all involved and a simplified reporting process.

Over the course of 2019, a new platform to collect the master data for all institutions was set up. One of the aims of the platform is to use the master data received to determine the reporting obligations for the collection of supervisory and resolution data. The other important purpose of the project is to use the data collected to keep the EBA's public registers, such as the Credit Institutions Register and the Payment Institutions Register, updated. Both registers are now available on the EBA website for all users to browse. Supervisors, analysts and the public can use the registers to check the status and details of credit and payment institutions, which supports the EBA's objective of increasing the transparency of the EEA banking system.

With the registers live, we are now working on the next phase of the project. This phase is focusing on building the platform for collecting supervisory and resolution data from the expanded set of entities, which will be done by December 2020. In addition to a number of teams within the EBA jointly working on this project, the EBA is consulting the national competent authorities and the ECB through the Task Force on EUCLID Implementation. A number of workstreams have been set up to consult experts of various backgrounds on different technical topics, thus ensuring the highest possible degree of alignment and harmonisation among the European authorities.

I am working together with the ECB, the national competent authorities and various teams across the EBA to make sure that the final solution is the optimal one for all involved, and I am coordinating the input from the experts across the business areas. Together with my colleagues in the EBA's statistical team, we are also validating the set-up of the platform to ensure that the information collected will include all key characteristics of the banks and be of the best possible quality, as well as testing the platform to ensure smooth data flows in the future. This will allow us to use the data for our analysis and publications in support of our dedication to providing a timely and clear picture of the EU's banking system to the public.



Figure 14: EU-wide transparency exercise – moving towards expansion of the scope and more granular data disclosure

Moving towards greater transparency in data

The annual EU-wide transparency exercise aims to foster market discipline and consistency in EU banks' figures. To meet this objective, the EBA publishes bank-by-bank data for the entities at the highest level of consolidation in the EU and the EEA. The results of the transparency exercise are solely based on supervisory reporting data (FIN-REP, COREP) and they cover several areas including capital, leverage ratio, risk exposure amounts, profit and loss, financial assets, market risk, securitisation, credit risk, sovereign exposures, and non-performing and forborne exposures.

The 2019 exercise was the sixth edition, and 131 banks from 27 EU Member States and EEA countries participated. The data published were more granular, at a quarterly frequency compared with a semi-annual frequency in the previous exercises. This significant change, along with the enlargement of the range of transparency templates (i.e. the introduction of information on financial assets, key metrics and Pillar 3 disclosures), led to the publication of up to 16 450 data points per bank. The expansion of the transparency results boosts the transparency of the EU and EEA banking sector and provides analysts with data for more detailed studies of the sector.

Pillar 3 disclosures as a tool for enhanced market discipline

In November 2019, the EBA published its roadmap on the delivery of the mandates on Pillar 3 disclosures and outlined its new policy strategy on Pillar 3 disclosures. In line with these mandates and policy strategy, the EBA published two consultation papers, covering comprehensive ITS on institutions' prudential disclosures, applicable to all institutions subject to the disclosure requirements under the CRR, and comprehensive ITS on resolution disclosures, applicable to institutions subject to TLAC requirements under the CRR and to MREL disclosures under the BRRD. The objectives of the new policy strategy are to:

- ensure clarity about requirements;
- reinforce market discipline, increasing the consistency and comparability of institutions' disclosures;
- facilitate understanding of key prudential information with key metrics templates;
- increase the efficiency of institutions' disclosures through integration with supervisory reporting;
- promote awareness among stakeholders of the role of institutions in the transition to a green economy.

Enhancing the EBA's data collection to monitor Basel III implementation in the EU

The 2019 Basel III monitoring exercise report makes use of the quantitative impact study numbers, reported assuming the final implementation of the Basel III framework and, thus, that the EU deviations would generally be removed from the EU regulation (except for the Danish compromise). This overestimated the actual impact of the reforms, in case these deviations were kept in the regulation.

Responding to a request from the European Parliament, the EBA intends to gather detailed information on the impact of the Basel III framework assuming the continuation of the existing European deviations from the pure Basel III framework. This data collection will be carried out in parallel with that related to the implementation of the pure Basel III framework.

Some of these deviations are considered a potential major source of overestimation in the present Task Force on Impact Studies (TFIS) monitoring report should this report be used to assess the transposed EU future regulation. The monitoring of the impact of the EU deviations, on an ongoing basis, is also in line with the IMF's recommendations issued in its report *Euro area policies: financial system stability assessment* (see Principle 16 on pages 71 and 77 and paragraph 36 on page 64).⁽²¹⁾

The EBA plans to collect data to assess the impact of the deviations of the current EU framework from the pure Basel III framework. This collection is currently expected to have a December 2020 reference date. The EBA envisages the finalisation of the data collection templates intended for use in this exercise in the course of 2020.

The EBA considers that the most material EU deviations that will be included in the near-future Basel III monitoring data collections, and which are also assessed in the EBA report in response to the call for advice, are the following:

Danish compromise: Article 49 of the CRR allows banks with holdings in insurance subsidiaries – and meeting certain conditions – to risk-weight the equity value of these entities instead of deducting it from the regulatory capital basis, as stipulated by the existing Basel rules.

CVA exemptions: Article 382 of the CRR exempts certain counterparties from the CVA risk charge, such as sovereigns, non-financial counterparties and pension funds. The EU Regulatory Consistency Assessment Programme deemed this deviation non-compliant with the Basel framework.

SME supporting factor: according to Article 501 of the CRR, exposures allocated to the retail or corporates classes or secured by mortgages on immovable property for which the annual turnover is below EUR 50 million and the total exposure is below EUR 1.5 million are eligible for an SME supporting factor of 76.19% applied to RWAs. CRR 2 will extend the scope of the SME supporting factor.

Infrastructure supporting factor: CRR 2, which will be in place by the time the final Basel III reforms are implemented, introduces an infrastructure supporting factor in the same vein as the SME supporting factor.

⁽²¹⁾ <https://www.imf.org/-/media/Files/Publications/CR/2018/cr18226.ashx>

Benchmarking diversity practices in credit institutions and investment firms

In 2019, the EBA benchmarked diversity practices in 834 institutions' management bodies (using data from September 2018); it published a report early in 2020. Institutions are required to take into account diversity when selecting new members of the management body and to implement diversity policies, in particular to achieve a more appropriate representation of both genders in management bodies. Diversity reduces the phenomena of 'group thinking' and improves decision-making by incorporating a broader range of views, opinions, experiences, perceptions, values and backgrounds. The issue of diversity is not limited to gender; it also concerns the ages, professional and educational backgrounds, and geographical provenances of the members of the management body.

Despite the legal requirements, a significant proportion of institutions (41.61%) have still not adopted a diversity policy and not all institutions that have a policy promote gender diversity by setting a target for the under-represented gender. The EBA called on competent authorities to ensure institutions' compliance with the requirement to adopt diversity policies. The representation of women in management bodies in their management function is only 15.13% and in their supervisory function 24.02%. Moreover, two thirds (66.95%) of

institutions have executive directors of only one gender. The distribution of the female representation within the sample, shown in Tables 1 and 2, indicates that greater efforts are needed from institutions and Member States to achieve higher representation of women on boards. The EBA is going to update its guidelines in this area of governance to clarify supervisory expectations of institutions.

The EBA analysed if there is a correlation between the profitability of a credit institution and the composition of the management body in its management function. As shown in Figure 15, credit institutions that have executive directors of both genders seem to have a higher probability of having a return on equity at or above the average of 6.42% than credit institutions with executive directors of only one gender. While 54.70% of the credit institutions with more gender-balanced management bodies in their management function have a return on equity at or above 6.42%, only 40.69% of those with executive directors of just one gender reach that return on equity level. Moreover, the average return on equity for institutions with gender-diverse management functions is above the average for other institutions (7.28% versus 5.95% respectively).

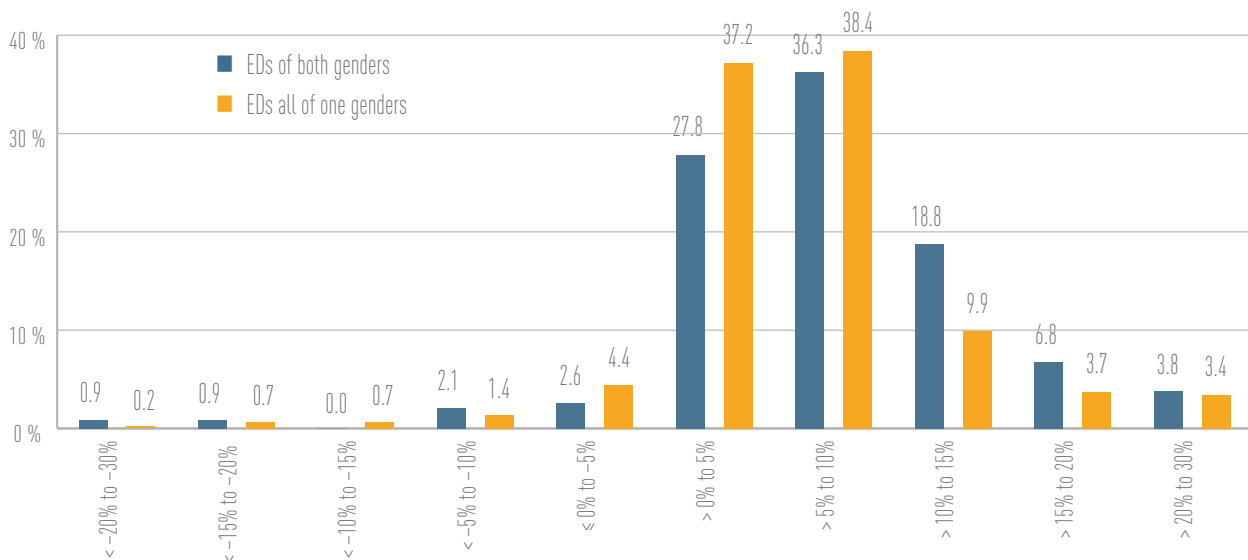
Table 1: Percentages of female executive directors (management function) in credit institutions (CIs) by size (balance-sheet total)

Institutions	0	> 0 to 25	> 25 to 33.4	> 33.4 to 50	> 50 to 66.7	> 66.7 to 100
CIs < EUR 1 bn	68.57	9.05	5.71	12.38	2.38	1.90
CIs EUR 1 bn to < EUR 10 bn	66.02	13.67	7.42	7.81	2.73	2.34
CIs EUR 10 bn to < EUR 30 bn	54.64	25.77	6.19	11.34	1.03	1.03
CIs ≥ EUR 30 bn	52.25	25.23	9.91	11.71	0.90	0.00
Investment firms	71.97	7.58	8.33	9.85	0.76	1.52
Thereof significant institutions	50.63	23.85	9.62	13.39	2.09	0.42
Total 2018	64.39	14.52	7.32	10.30	1.86	1.61

Table 2: Percentages of female non-executive directors (supervisory function) without staff representatives (SRs) in credit institutions by size (balance-sheet total and investment firms)

Institutions	0	> 0 to 25	> 25 to 33.4	> 33.4 to 50	> 50 to 66.7	> 66.7 to 100
CIs < EUR 1 bn	33.63	39.91	11.66	13.00	1.35	0.45
CIs EUR 1 bn to < EUR 10 bn	19.84	44.75	14.79	17.51	1.95	1.17
CIs EUR 10 bn to < EUR 30 bn	14.14	45.45	16.16	20.20	4.04	0.00
CIs ≥ EUR 30 bn	4.55	32.73	26.36	31.82	4.55	0.00
Investment firms	54.31	15.52	6.90	14.66	2.59	6.03
Thereof significant institutions	10.46	35.98	24.27	25.52	3.77	0.00
Total, excluding SRs, 2018	25.84	37.64	14.53	18.14	2.48	1.37
Total, including SRs, 2018	22.65	37.62	16.58	19.18	2.60	1.36

Figure 15: Return on equity and gender balance of executive directors (EDs) for credit institutions



Measuring MREL progress

As part of its quantitative monitoring of MREL, in 2019 the EBA reported on the loss-absorbing capacity of banks for which resolution has been chosen as the preferred strategy in case of failure. The report highlights that resolution authorities have made good progress in determining strategies and setting group MREL for institutions established in the Union, since the BRRD came into force in 2014. Comparing the sum of all decisions with the total EU domestic assets, approximately 85% of EU assets are covered by an MREL decision based on a bail-in or transfer strategy. The remaining part is

either earmarked for liquidation, still awaiting a strategy decision or an MREL decision or both. Among the 222 banks in the sample, the EBA reported that, as of December 2018 and on the basis of decisions based on the BRRD framework, close to half were already meeting the requirement, while the other half reported a EUR 178 billion shortfall. The transition period for most of these banks ends in 2023, and about 65 banks report long-term unsecured instruments amounting to EUR 67 billion, highlighting an existing sophisticated investor base for these banks and for that amount.

MAKING THE ORGANISATION EFFECTIVE AND EFFICIENT

Ensuring the smooth relocation of the EBA to Paris

The headquarters agreement was approved by the Management Board on 4 March 2019 and was signed at a ceremony in Paris on 6 March 2019.

The fit-out works were carried out by the landlord for the EBA, using Artelia, following a transparent and competitive selection process. The works were completed on 10 May 2019.

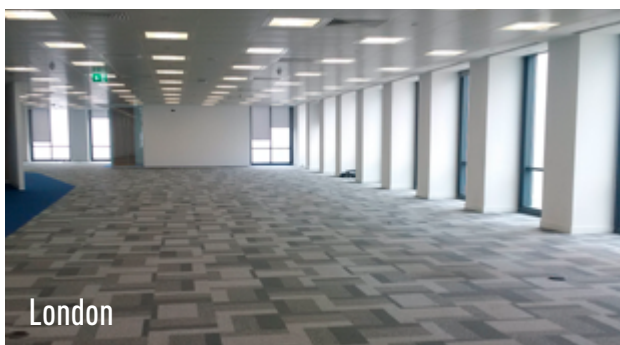
The physical relocation of the EBA to Paris was carried out by the specialist office relocation company Pickfords, which was awarded the contract on 29 March 2019 after an open call for tenders.

The move was split into two phases. During the weekend of 24 May all the meeting room furniture was relocated.

Phase 2 of the move took place during the May Bank holiday, from 30 May to 2 June 2019.

Following its physical relocation from London, the EBA occupies four floors (24–27) of the office space in Tour Europlaza, Paris, and has operated from those premises since 3 July 2019.

With regard to its old London offices, which it ceased to use at the end of May 2019, the EBA will continue to be liable for rent, building charges and local taxes up until the date of its contractual break clause in December 2020. To further reduce financial liability by subletting the premises in London or assigning the contract to another tenant, the EBA has appointed a property adviser in accordance with the EU procurement rules.



Being a responsible, competent and professional organisation with effective corporate governance and efficient processes

The review of the ESAs

With the agreement of the European co-legislators on the amendments to the EBA's founding regulation (the ESA review), work started at the EBA to adapt policy-making and operations. The changes stemming from the ESA review have broadened the EBA's tasks and competences.

The EBA's role was strengthened in the fields of AML/CFT, consumer protection and relations with third countries. The application and scope of EBA tools such as peer reviews, the breach of Union law procedure and mediation were refined, and rules of procedures, methodologies and terms of reference needed to be newly drafted or amended accordingly. Furthermore, new committees – such as the Standing Committee on AML/CFT and the Advisory Committee on Proportionality – were set up to contribute to and prepare for the EBA's new tasks. For other tasks, such as the

setting of EU-wide strategic supervisory priorities, completely new procedures had to be put in place.

Beyond these areas, the EBA adjusted its governance, particularly in the areas of conflict of interest, the transition to a gender-balanced Management Board, and the mainstreaming of ESG into the EBA's areas of work. The scope of the conflict of interest policy was extended to non-staff beyond the Board of Supervisors and Management Board, to include the Standing Committee on AML/CFT, the Resolution Committee and independent panels,^[22] including panels investigating potential Breaches of Union law. In addition, in line with the amended EBA's founding regulation, any interest that might be considered prejudicial to independence is now treated as a potential [conflict of interest].

The ESA review will make the EBA even more accountable and transparent as an organisation. Clear deadlines guide its exchanges of information with external stakeholders, for example responding to questions from the European Parliament or the submission of Board of Supervisors meeting minutes to the same institution.

The work on the ESA review in the EBA was a collaborative effort between many colleagues in various units. The exchanges and the review of our guiding principles and work processes have strengthened the EBA's ability to deliver on its mandate to ensure that financial markets across the EU are well regulated, strong and stable in the years to come.



^[22] Panels established in accordance with Article 41 of the EBA's founding regulation.



THE REVIEW OF THE ESAs



ANNE TIEDEMAN

Policy Expert



MATTHIAS DEISSENBERGER

Legal Support Officer

The EU's supervisory framework underwent a complete overhaul in the aftermath of the financial crisis, thanks to the establishment of the three ESAs for banking, capital markets, and insurance and pensions, as well as the European Systemic Risk Board for the monitoring of macroeconomic risks.

To keep pace with developments both within the EU and at global level, the European Commission proposed amendments to the supervisory framework of the ESAs. Agreement between co-legislators on these changes was achieved in 2019.

Thus, 2019 was another turning point for the EBA. Over the past year, we have coordinated with the stakeholders involved, in particular the other ESAs and the Commission, to lay the ground for all the necessary internal changes triggered by the updates to competencies, tasks and governance.

We had to provide drafts of new EBA decisions and mandates, and amendments to existing ones, as well as updates to internal processes and guidelines.

Of course, guidelines and legal instruments are only part of the story and they will not by themselves be enough to establish the effective application and ensure an in-depth understanding of the amended framework. They need to be understood and implemented consistently by our colleagues and the competent authorities, and it is here where much of our focus will be in 2020: we have already organised several workshops for EBA staff and we will support our colleagues as well as competent authorities and other stakeholders with implementation questions.

For us at the EBA, this reform constitutes a response to new opportunities and challenges in supervision and tackles important governance issues.



Settling of disagreements

One of the tasks of the EBA is to provide an environment where competent authorities can solve their disagreements. To enable it to execute this task, the EBA's founding regulation lays down two different procedures to help competent authorities to overcome their disputes: binding mediation and non-binding mediation.

In 2019, the EBA performed one binding mediation, in which the problem was solved by the amicable agreement of the parties involved during the conciliation stage. The case focused on the area of resolution planning.

Breach of Union law

Article 17 of the EBA's founding regulation gives the EBA power to investigate potential breaches of Union law by competent authorities including the national competent authorities in the Member States and the ECB under the SSM. This serves the goal of ensuring the application of Union law. Where the EBA finds a breach of Union law, it issues a recommendation on the actions that should be taken by the competent authority to rectify the situation. Under Article 17, an EBA finding of breach of Union law may also lead to further action by the Commission.

ted by the European Commission (the Directorate-General for Justice and Consumers) and one request came from a market participant.

From a thematic perspective, the EBA's investigations assessed alleged violations of European prudential, AML and DGS requirements.

At the beginning of 2019, six requests were open, one having been submitted in 2017 and the others in 2018.

Six requests were closed during 2019. Four were closed without opening an investigation after taking into consideration the criteria stated in the rules of procedure for the investigation of a breach of Union law, and one was closed without opening an investigation following the actions taken by the national competent authority.

Overview of breach of Union law casework in 2019

In 2019, the EBA received three requests to investigate alleged breaches or non-application of Union law, one fewer than in the previous year. One of the procedures was started on the EBA's own initiative, one request was submit-

In one of the cases, the European Commission requested that the EBA open a formal investigation into a possible breach of Union law by the Estonian Financial Supervisory Authority (Finantsinspektsioon) and the Danish Financial Supervisory Authority (Finanstilsynet). Subsequently, the EBA opened a formal investigation relating to AML activities linked to Danske Bank and, in particular, its branch in Estonia.

The formal investigation was closed after the EBA's Board of Supervisors rejected a breach of Union law recommendation at a vote during its meeting in April 2019.

By the end of 2019, three requests remained open and the EBA was conducting preliminary enquiries, one of them on AML, one in relation to the Mortgage Credit Directive and credit intermediaries, and one on DGSs.



Providing legal support for the EBA's work

Throughout 2019, the Legal Unit provided legal support to the governing bodies, to the management and to the core policy and operational functions of the EBA. As regards the EBA's regulatory activities, the Legal Unit ensured legal analysis and support in drafting binding technical standards, guidelines, recommendations and opinions, and legal analysis of proposed technical standards, guidelines and recommendations. The Legal Unit also provided its advice on oversight activities by issuing supervisory recommendations and by facilitating the resolution of disputes. In relation to the EBA's institutional setting, legal support was given on matters related to the EBA's relocation, in particular the nego-

tiation and drafting of contracts, including the lease for the EBA's new office in Paris; issues stemming from the Staff Regulations and the Conditions of Employment of Other Servants of the European Union; governance-related issues; requests for public access to documents lodged pursuant to Regulation (EC) No 1049/2001; professional secrecy and confidentiality issues; intellectual property rights; protocol and matters arising in connection with the EBA's relations with the host state; and requests from EU bodies such as the European Court of Auditors and the European Ombudsman. As part of continuous monitoring of the EBA's legal framework, the Legal Unit worked to enhance good administrative practices.

Working to protect personal data

Given its responsibility for data protection in accordance with Regulation (EU) 2018/1725, the EBA liaised with the office of the European Data Protection Supervisor. In 2019, the designated officers within the EBA promoted the importance of data protection issues to the EBA staff, especially by raising the importance

of data protection during awareness sessions and induction sessions organised for new joiners. The designated officers actively participated in meetings of the EU Data Protection Network, including with regard to the newly revised General Data Protection Regulation.

Maintaining the Interactive Single Rule Book

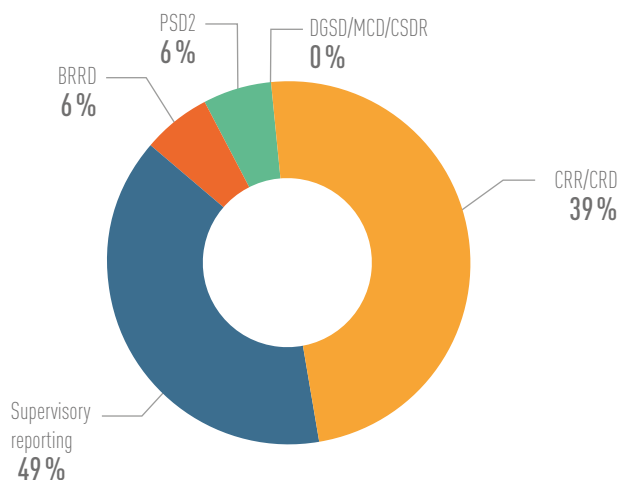
The Interactive Single Rulebook is a compendium of the key legislative frameworks within the EBA's remit, currently including the CRR and the CRD, the BRRD, the Deposit Guarantee Schemes Directive, PSD 2 and the Mortgage Credit Directive. This resource enables stakeholders not only to access the relevant legislative frameworks in one place but also – using links embedded in relevant articles of these legislative texts – to consult any associated technical standards (RTS and ITS) developed by the EBA and adopted by the European Commission, as well as EBA guidelines, and also Q&As relating to these legislative and regulatory texts.

As an integral part of the Interactive Single Rulebook, the Q&As make an important contribution, as they offer guidance with the objective of ensuring the consistent application

and implementation of the regulatory framework in banking across the EU. Institutions, industry associations, competent authorities and other stakeholders can use the Single Rulebook Q&A tool ⁽²³⁾ to submit questions on legal texts within its scope, on associated Commission delegated or implementing acts, on related technical standards developed by the EBA and adopted by the Commission, and on EBA guidelines adopted under these legislative texts.

The review of the questions submitted follows a thorough due process involving the EBA, the European Commission and competent authorities. Questions that go beyond matters of consistent and effective application of the reg-

⁽²³⁾ <https://www.eba.europa.eu/single-rule-book-qa>

Figure 16: Overview of submitted Q&A by topic

ulatory framework are addressed by a Directorate-General of the European Commission (usually the Directorate-General for Financial Stability, Financial Services and Capital Markets Union); this is notwithstanding that only the Court of Justice of the European Union can provide definitive interpretations of EU legislation. Process adjustments are being considered as a result of the introduction of Article 16b, 'Questions and answers', into the revised ESA founding regulations.

Although Q&As have no binding force in law and are not subject to 'comply or explain', their application is scrutinised and challenged by the EBA and national competent authorities, given their undoubted practical significance for achieving a level playing field.

The Q&A tool's importance is reflected in the continuously significant number of questions submitted. By 31 December 2019, around 5 070 questions (compared with around 4 440 at the end of 2018) had been submitted through the dedicated Q&A tool. Of these, about 2 235 were rejected or deleted (up from about 1 750 at the end of 2018), about 1 825 could be answered (up from about 1 545 at the end of 2018) and about 1 010 were under review (down from about 1 145 at the end of 2018). The bulk of these – around 745 outstanding Q&As – are on the CRR/CRD, with just over half relating to questions on the supervisory reporting framework. The remainder comprises about 135 questions on PSD 2, 125 questions on the BRRD and about 5 on various other legislative acts covered by the scope of the process.

The current backlog of questions is a function of the substantial numbers of submissions, in combination with the fact that the questions often raise complex issues and constraints imposed by limited resources. This leads to processing times that are longer than had initially been expected.

Yet, notwithstanding these issues, the results of a study of the use and usefulness of the Q&As that the EBA published in 2019 ⁽²⁴⁾ confirmed that this resource is considered to provide a positive contribution. For the abovementioned study, survey participants provided suggestions for improving the Q&A process and the tool.

⁽²⁴⁾ <https://eba.europa.eu/eba-publishes-feedback-on-a-review-of-the-use-usefulness-and-implementation-of-the-single-rulebook-q-a>

The EBA is in the process of considering the proposed suggestions for improving the Q&A process with a view to implementing realistic and workable changes to the Q&A resource and the Interactive Single Rulebook. The EBA is also implementing a number of changes to reflect the implications of the introduction of Article 16b, 'Questions and answers', into the revised ESAs founding regulations, including the requirement to publish admissible questions received and the role of the European Commission in answering questions relating to the interpretation of Union law.

In the light of the publication of the revised CRR 2/CRD 5/BRRD 2 texts in June 2019, the EBA launched, at the end of September 2019, a review process for all final CRR/CRD/BRRD Q&As. The outcome of the review is expected to be reflected in the Q&A tool and the Interactive Single Rulebook in the first half of 2020.

Delivering digital services to support the EBA's core functions and its internal administration

The year 2019 was one of the most challenging yet for the EBA's IT unit (EBA IT). EBA IT managed to successfully ensure stable business operations and continuous improvements, while focusing on mission-critical workstreams, in particular relating to the Paris relocation, the data centre migration and the EUCLID programme.

Furthermore, in 2019 the 5-year EBA IT strategy for digital transformation was established. The IT strategy workstream was led by EBA IT, in close partnership with other EBA units and the national competent authorities, with the aim of making the EBA a digital agency operating as an EU data hub and of maximising value for the EBA's constituency and ultimately EU citizens.

Despite its challenging objectives, EBA IT has successfully delivered on all workstreams, often using the opportunity to transform and improve its services, improving the solutions offered and reducing the associated costs.

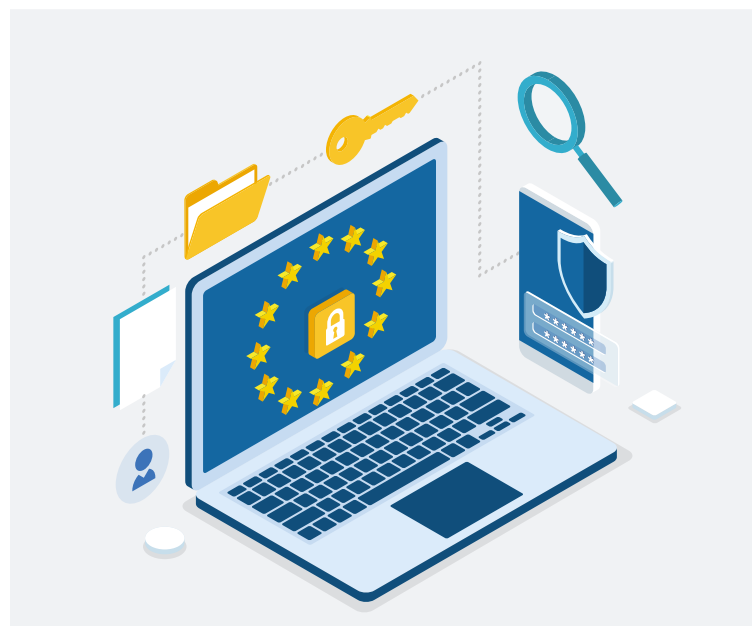
As part of the Paris relocation work programme, EBA IT moved to a new, modern and secure office infrastructure, including connectivity for a secure, highly mobile, wireless work environment, and audio/video infrastructure for meeting rooms and conferencing facilities. In doing so, EBA IT took the opportunity to migrate towards as-a-service solutions (for printing, telephony and communications), reducing costs, improving security, and increasing flexibility and quality.

Ahead of the UK's withdrawal from the EU in January 2020, EBA IT implemented a significant data centre migration to an interagency community cloud environment, in line with its hosting strategy. EBA IT migrated the entire IT infrastructure of the EBA, originally hosted in two data centres managed by Serco in London, to the community cloud environment hosted by CANCOM in two data centres in Hamburg and sharing infrastructure services with other EU agencies. In doing so, EBA IT ensured no disruption to the EBA's activities, improved security and reduced cost for the same or a better quality of service.

Data collection was enabled by the EUCLID programme, which is the core digital element of EBA's strategy to expand supervision to the entire EU banking market. In 2019, the Master Data Management engine was implemented, providing a converging platform for the Credit Institutions Register and Payment Institutions Register.

During 2019, EBA IT continued to improve and maintain its data collection solutions. The supervisory collection platform, consisting of the European Supervisory Platform and Master Data Management, were enhanced to take account of the extended regulatory framework on FINREP and COREP (current data point model version 2.9). EBA IT is working towards an upgrade to the supervisory colleges platform, to create a higher degree of mobility and independence for sharing of information and communication between supervisory colleges.

In the domain of digital solutions and workplace solutions, EBA IT conducted a review of collaboration needs and launched a market study scan for the best possible solution for an EBA collaboration platform, aiming to converge its current collaboration spaces (the colleges and the EBA extranet) and



move towards a futureproofed solution that allows seamless internal and external collaboration. Furthermore, several internal workflows were digitised, to enable documents to be stored, retrieved and approved documents in a more consistent, secure and efficient way.

Internally, EBA IT improved its efficiency, strengthened governance, rolled out IT project portfolio management in partnership with its stakeholders, strengthened and improved its security function, and improved change management controls to de-risk and increase the availability of its production platforms.

Communication and promoting the EBA's work

In 2019, the Communications Team undertook several tasks to promote a large number of publications and to support the delivery of the EBA's main projects as mentioned in the work programme such as the RAR and the transparency exercise, the monitoring of Basel implementation, financial technologies and sustainable finance, AML, etc.

Throughout the year, 130 news items and press releases were published. Media briefings and interviews were organised either reactively or proactively, based on the EBA outputs that, in the light of specific relevance or sensitivity, were deemed to require dedicated media activities. Such activities included in particular Brexit-related activities, the RAR and the transparency exercise. In 2019, the team organised 46 interviews and background briefings with journalists.

In line with the EBA Management Board's decision to translate all EBA guidelines and recommendations into all the EU official languages, 69 final EBA products were proofread and we shared 7 products for review with the National Editors Network.

The first half of the year was marked by an intensive internal communication campaign linked to the relocation to Paris. On top of the info sessions organised together with colleagues from the Corporate Support Unit, we continued to publish the staff newsletter (five issues in 2019), including a special IT edition to ensure a smooth transition to our new life in Paris. On external communication, we informed the media in a timely manner and coordinated #EBAinParis, a social media campaign that raised awareness of the EBA's new seat. In addition, the official launch event in France was organised by the Communications Team and gathered representatives from the ECB, the European Commission and Banque

de France. Also in May, José Manuel Campa, the new EBA Chairperson, joined the organisation and we had in place a communication plan, which focused mainly on introducing him and his priorities to the media.

The existing social media accounts became one of the main means of communication with banking and finance professionals, the EU institutions, journalists and consumers. In 2019, the EBA Twitter account had reached 11 000 followers, a 35% increase on the previous year. The EBA LinkedIn corporate account almost doubled its number of followers, reaching 41 000. The Communications Team continued its close collaboration with staff attending public events and significantly improved engagement on social platforms by promoting EBA products and policies and interacting with stakeholders. The team joined forces with an external provider to deliver the organisation's social media and digital strategy, scheduled for mid-2020. By the end of the year, the Chairperson's official LinkedIn account had been launched, a project that will be further developed in 2020.

The migration of the EBA corporate website to a more advanced platform called Drupal started at the beginning of 2019. The change was necessary to be in line with the European Commission's web standards and to enable the hosting of the EBA website by the Commission servers by the end of 2020. The website also had a light makeover in terms of design and structure. In addition, the revamping of the intranet was another a milestone successfully achieved. The team continues to regularly update the platform to transform it into the main source of information for staff.

In the last quarter of the year, the team focused on the launch of the EBA roadmaps, the RAR and the transparency exercise, the sec-



and call for advice on the implementation of Basel III, and the launch of the action plan on sustainable finance. All these activities were accompanied by separate communication and social media plans. The Communications Team liaised with the Publications Office of the European Union to prepare infographics to promote these products. These efforts were reflected in coverage in the local and international press.

Together with the Publications Office, we developed a template and started producing factsheets on various themes of interest to provide information about the added value that the EBA offers EU citizens. In November and December, in cooperation with the Human Resources Unit, the Communications Team put together media training sessions for the Chairperson, middle and senior management, and senior experts.

PRIORITIES FOR 2020

Supporting the deployment of the risk reduction package and the implementation of global standards in the EU

Supporting new regulatory developments on securitisation

After having issued an opinion on the regulatory treatment of securitisations of NPEs in October 2019, the EBA continued working with other authorities within global standard-setting bodies to promote amendments to the international capital standards on NPE securitisations along the lines suggested in the opinion.

In the second quarter of 2020, the EBA will publish its final recommendations on a set of criteria for STS balance-sheet synthetic securitisations. These criteria are expected to (i) increase the level of transparency of the products, (ii) foster the standardisation of the products and open the market for smaller originators and investors, and (iii) have a positive impact on financial and capital markets, financial stability and the real economy.

Supervisory convergence and rules on SRT

In 2020, the EBA will finalise its report on significant risk transfer (SRT), thereby facilitating the convergence of supervisory practices on SRT assessment and levelling the playing field in this area. The report is envisaged to include recommendations on the harmonisation of (i) the supervisory process for SRT assessment and (ii) quantitative SRT tests, including the assessment of the 'commensurateness' of risk transfer and certain structural features of transactions insofar as they are relevant for these tests.

Current supervisory practices on SRT show a significant degree of common ground, in large part owing to those practices' being consistent with the EBA's pre-existing 2017 discussion

paper and 2014 guidelines on SRT. Significant differences, however, persist as regards the process for SRT assessment, the application of the tests in practice (SRT quantitative and commensurate risk transfer), the treatment of excess spread and the assessment of certain structural features. The EBA was mandated with the task of monitoring the range of supervisory practices on the assessment and recognition of SRT and addressing a report to the European Commission by the end of 2020. Having regard to the EBA report, the Commission may adopt a delegated act to harmonise the process and grounds for SRT assessment and, thus, remove the uncertainties and inconsistencies in the current supervisory processes.

Developing technical standards for eligible liabilities and ensuring coherence with own funds standards

The adoption of Commission Delegated Regulation (EU) No 241/2014 in 2014, also known as the RTS on own funds, was a milestone in developing the regulatory framework for own funds, as it incorporated 20 existing standards further specifying relevant CRR provisions.

CRR 2, adopted in May 2019, maintains the essential provisions on which the RTS are based, updates some of the terminology and integrates a number of rules that were previously governed by the RTS, such as general prior permissions for reducing own funds. As a result, the RTS must be updated.

In addition, CRR 2 mandates the EBA to further specify criteria for TLAC/MREL eligible liabilities instruments, in particular with regard to direct and indirect funding, incentives to redeem, the notion of sustainable replacement

terms and the prior permission regime for the reduction of those instruments. As many criteria for own funds and eligible liabilities (e.g. the prohibition of direct or indirect funding by issuing entities or the restrictions on incentives to redeem) converge, the EBA is required to ensure 'full alignment' across both sets of instruments. More generally, the EBA seeks to ensure consistency across own funds and eligible liabilities instruments where they contain similar loss-absorbency features.

Much of the drafting work on these amended RTS on own funds and eligible liabilities instruments had been completed at the end of 2019. Following the public consultation in spring and summer 2020, the draft revised RTS will be delivered to the European Commission by the end of 2020.

Continuing the monitoring of own funds instruments and extending the scope to TLAC/MREL issuances

Since the adoption of the RTS on own funds, the EBA has considerably stepped up its efforts in monitoring the correct implementation of eligibility criteria for capital instruments.

Article 80 of the CRR mandates the EBA to monitor, on an ongoing basis, the quality of own funds instruments issued by institutions across the Union and to notify the Commission immediately where there is significant evidence that those instruments do not meet eligibility criteria.

main results of this work will be summarised and presented in the form of a report, the CET1 report, which was published for the first time in 2017 and has been updated twice, most recently in mid-2019. The findings to be presented are not intended to cover every issue assessed but, rather, to highlight aspects

CET1 monitoring

The EBA has been continuously monitoring the quality of CET1 issuances in the EU since 2013. This work will proceed further, with the main focus on the review, in cooperation with competent authorities, of CET1 instruments that were issued before the CRR came into force. In the same vein and in line with Article 26(3) of the CRR, the EBA will publish regular updates to its CET1 list, which contains all forms of capital instruments in each Member State that qualify as CET1. As in the past, the



either in the terms and conditions of the instruments or in national laws in relation to which the EBA might have recommendations for amendments to ensure that capital instruments are fully compliant with CRR requirements and hence eligible as CET1 capital.

While this work continues, the EBA has taken up yet another monitoring task.

Qualitative MREL monitoring

The amended CRR has expanded the EBA's role in monitoring the quality of own funds (Article 80 of the CRR) to cover TLAC/MREL

eligible liabilities. To deliver on this new role, the EBA has drawn on the existing working methods for the monitoring of own funds, which are of proven efficacy. Assessment templates have been adjusted to the new eligibility criteria and the EBA has started assessing instruments on a regular basis to cover a broad range of jurisdictions and contractual features. As for own funds, the objective is to identify trends, recurrent contractual practices, concerns or best practices that could warrant further policy clarification. The EBA held a preliminary discussion with stakeholders in January 2020 and intends to publish a first eligible liabilities report by mid-2020.

Communicating on and sequencing Pillar 2 requirements

In its Pillar 2 roadmap,^[25] the EBA considers how to make the Pillar 2 framework fit for purpose in view of ongoing and new challenges in line with CRD 5.^[26] In the roadmap, the EBA sets out plans for the revision of the common guidance on Pillar 2 requirements in the SREP guidelines.

The conditions for setting Pillar 2 requirements, to cover specific risks to which a bank is exposed, will be further defined and the institution-specific nature of those requirements emphasised. Furthermore, the use of the internal capital adequacy assessment process calculations will be clarified in line with the new CRD provisions.

The review of the SREP guidelines will also be used to align the treatment of risks and definitions in the guidelines with a comprehensive supervisory risk taxonomy that is currently under development, to ensure a common understanding of the risks and their categorisation.

Finally, institutions will be required to disclose the amount and composition of Pillar 2 requirements, which will also be taken into account in the review of the SREP guidelines.

^[25] *EBA risk reduction package roadmaps*, Chapter 3, 'Roadmap for the delivery of the EBA mandates on Pillar 2', 21 November 2019 (<https://eba.europa.eu/eba-publishes-its-roadmap-risk-reduction-measures-package>).

^[26] Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures entered into force on 27 June and will apply from 29 December 2020, with the exception of some provisions as set out in Article 2. OJ L 150, 7.6.2019, p. 253–295 (<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32019L0878>).

Providing efficient methodologies and tools for supervisory convergence and stress testing

Supporting a better implementation of Pillar 2 in the EU

In November 2019, the EBA published a roadmap^[27] to outline its plans to update the common European framework for the SREP in 2020–2021. The roadmap provides a general overview of the main changes to the Pillar 2 framework stemming from CRD 5 and CRR 2, as well as the related EBA deliverables, setting out a timeline for their completion.

The revision of the SREP guidelines will focus on a number of areas, including the proportionate application of Pillar 2 for small and less complex institutions. The aim is to provide a sufficiently granular approach to proportionality while maintaining risk sensitivity in the context of Pillar 2 capital requirements.

In view of the complementary roles of prudential and AML supervision, the AML dimension is highlighted in several key prudential instruments such as the SREP. Common guidance will be provided in the guidelines on how to factor AML/CFT-related aspects into the SREP from a prudential perspective.

In the light of sustainable finance, the EBA is also mandated to assess the potential inclusion of ESG risks in the SREP. The review of the SREP guidelines also aims to streamline and simplify the guidelines to facilitate their application. The goal is to provide a common set of uniform guidelines that are fit for purpose for the day-to-day work of supervisors.

The revised SREP guidelines are expected to be published by the end of 2021. A prior publication is planned in 2020 on the prudential treatment of AML/CFT-related aspects in the SREP, given the urgency of the need to provide common guidance on this.

^[27] EBA risk reduction package roadmaps, Chapter 3, 'Roadmap for the delivery of the EBA mandates on Pillar 2', 21 November 2019 (<https://eba.europa.eu/eba-publishes-its-roadmap-risk-reduction-measures-package>).



Producing EBA guidance on the end-treatment of grandfathered capital instruments

When the CRR entered into force, grandfathering provisions were introduced. To ensure that institutions had sufficient time to meet the requirements set out by the new definition of own funds, certain capital instruments that, at that time, did not comply with the new definition of own funds were grandfathered for a transition period with the objective of phasing them out from own funds.

The beneficial treatment provided by the grandfathering provisions will come to an end on 31 December 2021. In line with its mandate to monitor the quality of own funds and eligible liabilities instruments issued by institutions across the Union, the EBA has been working to assess the magnitude of the outstanding amounts of legacy instruments and to understand institutions' actions and intentions regarding the treatment of these instruments at the end of the grandfathering period. In 2019, the EBA also announced its intention to provide clarity on the appropriate end-treatment, to ensure the high quality of capital for EU institutions and the

consistent application of rules and practices across the Union.

In developing its work, the EBA takes necessary actions to ensure appropriate interaction with all concerned and invites institutions to engage with their respective competent authorities with regard to the magnitude and intended future treatment of their outstanding legacy instruments in the context of supervisory dialogue on their capital planning.

Currently, the EBA is finalising its guidance on possible policy treatments of features that may render legacy instruments ineligible for lower categories of capital or create an infection risk for higher capital tiers. These features mainly relate to the flexibility of payments criterion and to the ranking in insolvency, thus affecting the eligibility criterion of subordination. The EBA aims to communicate its guidance on the end-treatment of legacy grandfathered instruments in 2020 so that institutions have time to prepare for the end of the grandfathering period.

Continuing the monitoring of the implementation of IFRS 9 and the benchmarking of modelling of expected credit losses

Following the publication in December 2018 of its first observations on the impact and implementation of IFRS 9 by EU institutions, the EBA continued monitoring activities on the implementation of this standard, promoting the consistent application of IFRS 9 and working on its interaction with prudential requirements. The report was prepared mainly using supervisory data (COREP/FINREP) submitted by the institutions and extracted using a set of indicators specifically developed for the purpose. These indicators have now been integrated into the list of EBA key risk indicators, which are monitored by the EBA on a continuous basis.

As announced in the IFRS 9 roadmap, the EBA intends to prepare a follow-up qualitative questionnaire mainly focusing on governance, classification and measurement aspects. The new qualitative questionnaire covers only aspects not covered by qualitative survey developed for the purposes of the IFRS 9 benchmarking exercise. This qualitative exercise was recently slightly postponed to enable the EBA to include in its scope specific accounting aspects deemed particularly relevant in the current context of the COVID-19 pandemic.

Fostering supervisory convergence through the EBA 2020 convergence plan

According to its founding regulation, the EBA is to actively foster supervisory convergence across the Union, with the aim of establishing a common supervisory culture. The EBA defines supervisory convergence as a process of achieving comparable supervisory practices in Member States that are based on compliance with the Single Rulebook and lead to consistent supervisory outcomes.

The EBA has a number of tools at its disposal to fulfil this mandate and the setting out of the annual convergence plan is one practical element of this toolkit that complements other significant elements such as policy development and training.

The convergence plan, through the identification of key topics for heightened prudential supervisory attention across the EU, aims to influence competent authorities' priorities and supervisory practices.

Competent authorities were expected to consider these key topics when developing their 2020 supervisory examination programmes for the institutions they supervise.

As in 2019, the EBA developed some attention points (objective elements) for each key topic to facilitate objective assessment, as well as to help focus competent authorities' attention.

The EBA will review the approaches applied by competent authorities to the supervision of the

identified key topics and will use the most appropriate convergence tools at its disposal to conduct the assessment, in particular the monitoring of colleges, questionnaires and bilateral convergence visits, if and as appropriate. When conducting the follow-up and assessment the EBA is going to take into consideration that significant supervisory efforts and resources are and will be dedicated to monitoring the contingency measures and crisis preparedness of institutions in 2020, as well as further implications of Covid-19 on credit institutions' operations and financial soundness.

Figure 17: Criteria for identifying key supervisory topics in 2020

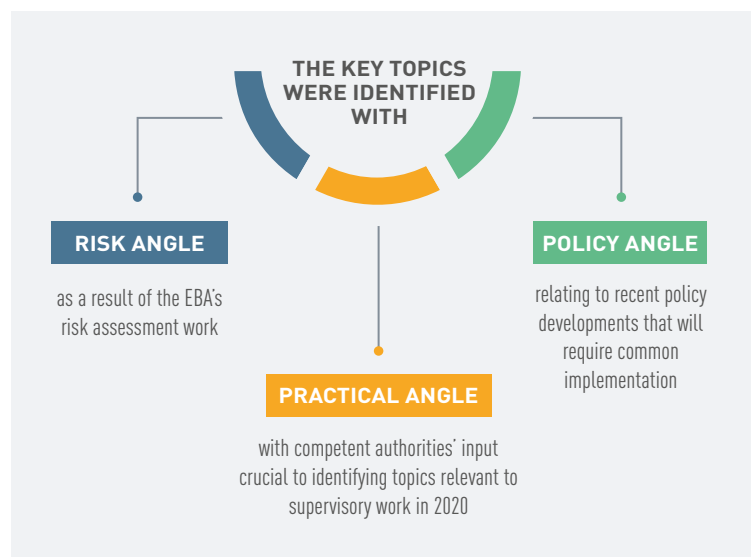


Figure 18: Key topics for heightened supervisory attention in 2020



Moving towards an integrated EU data hub and a streamlined reporting framework

Aligning supervisory reporting and disclosure requirements

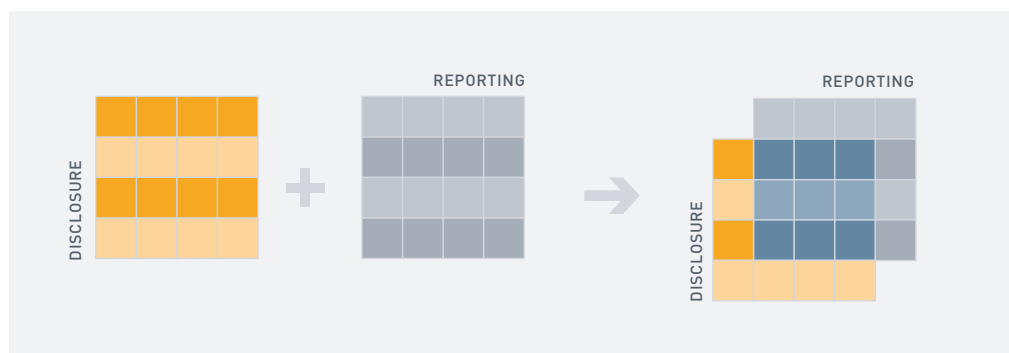
First, in 2020 the EBA will work on the finalisation of ITS (i.e. consultation papers) launched in 2019. These products include comprehensive ITS on institutions' prudential disclosures applicable to all institutions subject to the disclosure requirements under the CRR and comprehensive ITS on resolution disclosures applicable to institutions subject to TLAC requirements under the CRR or to MREL disclosures under the BRRD.

In addition to these, the EBA will develop technical standards on disclosures by investment firms under the Investment Firms Regulation, which will be consulted on in 2020, and will integrate into the comprehensive ITS on institu-

tions' prudential disclosures ESG risk disclosures, including climate change risks, also to be consulted on in 2020.

A comprehensive and more standardised approach to developing the reporting and disclosure framework is of crucial importance to the day-to-day work of supervisors and to promoting market discipline. The EBA will integrate Pillar 3 disclosure requirements with supervisory reporting by standardising the formats and definitions, with a view to increasing consistency between reporting and disclosure requirements. This is expected to facilitate institutions' compliance with both requirements.

Figure 19: Integration of disclosure requirements with supervisory reporting





ANJA BAUTZ

Policy Expert



COST OF COMPLIANCE

The EBA received two special mandates in the area of supervisory reporting through CRR 2. One is primarily focused on the future of reporting as a whole: the feasibility study on integrated reporting. The other one, which I am working on, is the study on the cost of compliance with supervisory reporting requirements for institutions. That study looks for lessons to be learned from the past to make proposals for increasing proportionality and improving the efficiency of the reporting framework.

The study on the cost of compliance is meant to deliver deeper insights into reporting costs and what drives them – and this information will also benefit the feasibility study. The data reported by institutions are crucial for competent and resolution authorities to fulfil their tasks of supervising and, where necessary, resolving institutions. At the end of the study, the EBA is going to present recommendations on measures to reduce costs and increase efficiencies that take into account both the costs associated with reporting and the benefits for the authorities and potentially also institutions themselves.

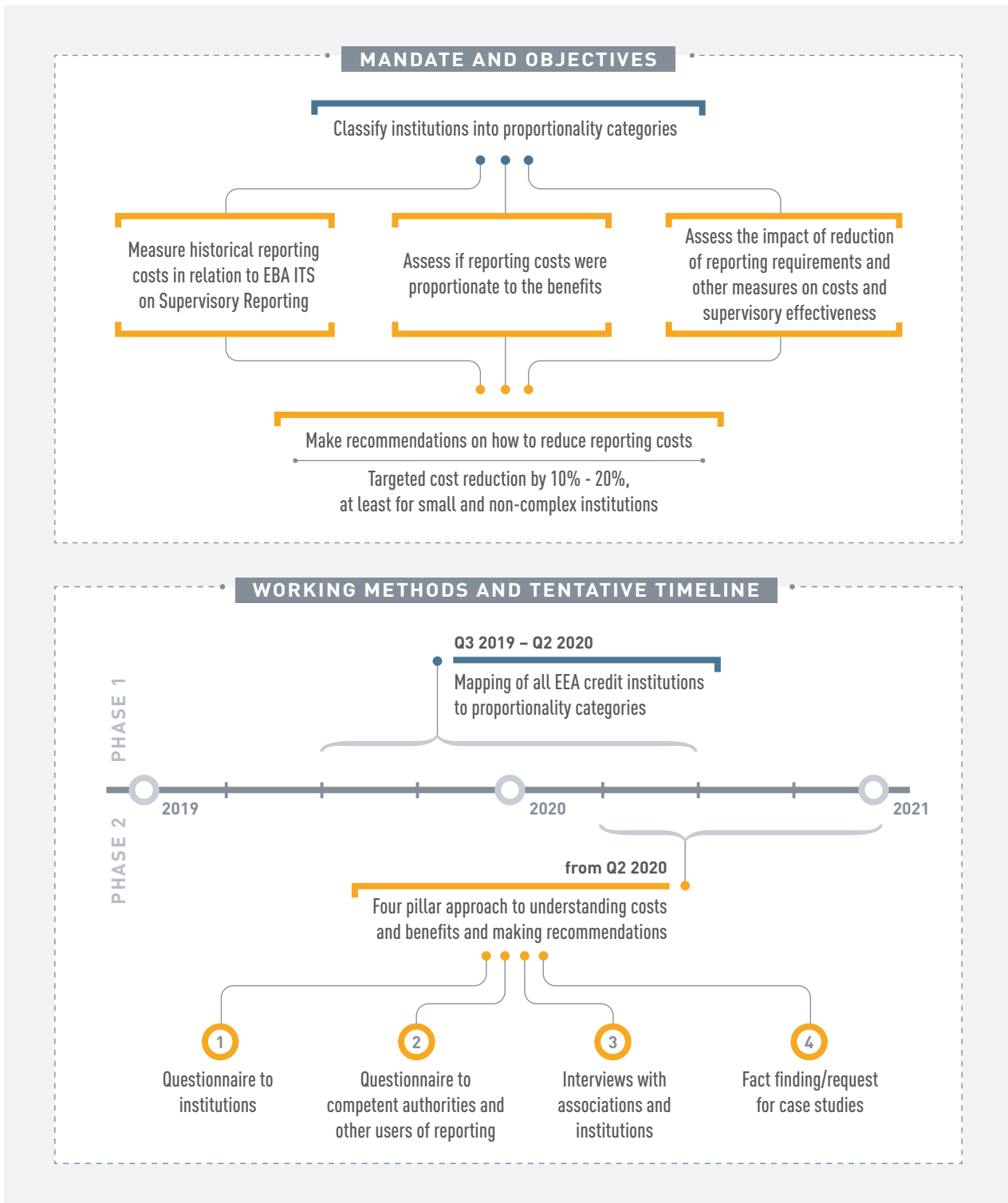
Defining the content of reporting requirements is an important task for the EBA, not only because harmonised reporting requirements across Europe benefit, for example, institutions that are active across borders, but also because the data reported are directly used by the EBA, for example to conduct analyses of institution's funding plans or develop policy stances on the appropriate form of regulation on NPLs.

From my point of view, the cost of compliance study is a chance to exchange views with institutions in a format different from the EBA's usual consultation format. I believe the study offers the opportunity to get concrete feedback on the design of the EBA's reporting requirements and to understand where there is potential for improving that design. It will also be interesting to see to what extent costs are driven by factors other than the content, such as processes and IT set-ups, and how institutions use the supervisory data in their internal monitoring and management processes.

The study is a challenging task for the EBA, considering the expectations of all of its stakeholders. I look forward to tackling the challenges together with my colleagues involved in this study and for the benefit of everybody relying on these data. I am committed to making the reporting framework and processes even more efficient and fit for purpose, to create a sustainable reporting ecosystem that delivers the reliable data that the EBA and other authorities need to fulfil their tasks.



Figure 20: EBA study on cost of compliance with regulatory reporting



Finalising reporting packages

The EBA will deliver final products on the supervisory reporting framework. This will include the finalisation of the ITS in relation to the NPL Backstop Regulation and the amendments stemming from CRR 2, which will apply to a number of key policy areas including credit risk, counterparty credit risk, market risk, the leverage ratio and large exposures. The EBA will also publish the final reports on the ITS on disclosure and reporting of TLAC and MREL.

In addition to the finalisation of these products, the EBA will start developing reporting

and disclosure requirements for investment firms. This reporting framework for investment firms will set out requirements in terms of own funds, levels of minimum capital, concentration risk, liquidity, and the level of activity of small and non-interconnected investment firms, and the reporting requirements for the purposes of the thresholds that apply to certain investment firms. The EBA will develop a proportionate regulatory framework taking into account the business of investment firms and their activity, size and interconnectedness.

Figure 21: EBA Pillar 3 strategy implementation timeline



Developing data exploitation tools: a focus on data analytics

The increasing volume and complexity of data now being captured from multiple sources offers new opportunities for regulators, in particular to better understand supervisory data and monitor the performance of prudential regulation across the European banking sector.

The necessary IT architecture and the essential governance components have been created to enable safety analysis, as well as to ensure that the EBA has the capability and capacity to collect, analyse and interpret these data for better decision-making and greater harmonisation. In the context of these objectives, the EUCLID platform will contribute to the increasing role of the EBA as a data hub and provide a portal for advanced analytics

by allowing enhanced data collection from national competent authorities, with the data processed on the platform itself in a fully automated way.

The EBA will continue to make available its expertise for projects to improve the usability of data with a strong focus on supervisory data. The EBA's priorities include providing analytical tools for risk analysis by continuously developing and maintaining its risk dashboards and interactive tools. For instance, one of these is a powerful tool that explains effectively supervisory data such as those collected for the transparency exercise, as well as making analytical advances and assessments in the field of AML.

Extending supervisory reporting to the entire banking sector

From 2020 onwards, the EBA will collect data from all supervised credit institutions and groups in the EEA. In addition, it will expand the collection of resolution data and enhance the flexibility of the data collection platform to collect a number of other sets of data through a single entry point. The EBA is a data-driven institution, and the expanded samples of reporting entities will allow it to carry out deeper analyses of the banking sector and help in monitoring risks to the European banking system as a whole. This will support the creation of a harmonised regulatory and supervisory banking framework for the EU, with policy decision-making backed up with up-to-date banking and supervisory data. It will also reduce the burden on entities and national com-

petent authorities because there will be less need for ad hoc data collections and requests.

The data for the expanded set of entities will be collected through the new EUCLID platform, which continues to be one of the EBA's highest priorities for 2020 and will be until all components of the data collection platform are set up. The expansion of the sample will take place gradually over the course of 2020, in tandem with the step-by-step construction of the EUCLID platform: EUCLID master data will be collected during 2020 for the entire EU banking population. With the characteristics of the EU banks in place, the EBA will be able to open the gates to receive supervisory data for the whole EU banking population in 2021.

Making AML a real priority for the EU

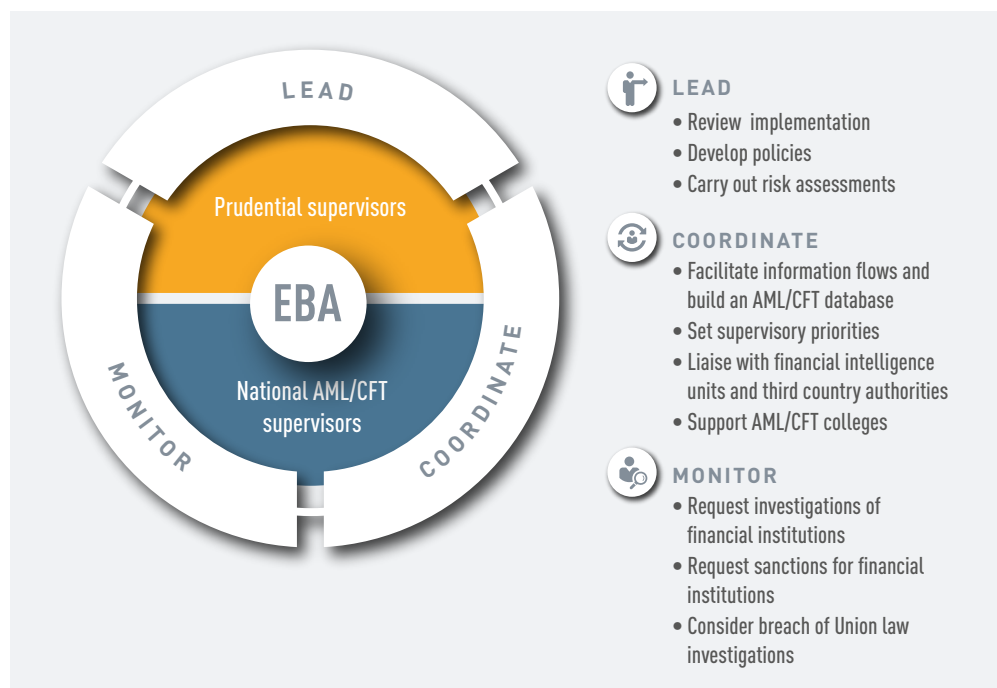
In 2019, the European legislature consolidated the AML/CFT mandates of all three ESAs within the EBA. It also gave the EBA a clear legal duty to contribute to preventing the use of the financial system for the purposes of ML/TF and to lead, coordinate and monitor the AML/CFT efforts of all EU financial services providers and competent authorities. The law implementing these powers and this mandate came into effect on 1 January 2020.

Within the possibilities for and constraints on fulfilling these new mandates given the EU's minimum harmonisation framework for AML/CFT, we will use our new powers as set out below.

- **Lead** the development of AML/CFT policy to foster the implementation of an effective risk-based approach to AML/CFT: for example, in 2020 we will introduce targeted revisions to our core AML/CFT guidelines designed to strengthen both competent authorities' AML/CFT supervision and financial institutions' AML/CFT compliance efforts.
- **Coordinate** the actions of relevant authorities in a way that supports the development of a common understanding of ML/TF risks and ensures that these risks are dealt with promptly: for example, we will support the establishment of AML/CFT colleges of supervisors, in line with our 2019 guidelines on supervisory cooperation, and work with competent authorities to ensure that these colleges function effectively.
- **Monitor** the implementation of EU AML/CFT standards to identify vulnerabilities in competent authorities' approaches to AML/CFT supervision and to take steps to mitigate them before ML/TF risks materialise: for example, we will make use of our new powers to ask competent authorities to take action if we have indications that a financial institution's, or group of institutions', approach to AML/CFT materially breaches EU law.

The EBA's new role and powers constitute an important step towards achieving greater consistency of national approaches to AML/CFT

Figure 22: EBA strategic objectives on AML/CFT



and effective outcomes. However, they may not be sufficient to achieve the significant and lasting change needed to protect the single market from financial crime. This is because the EU's AML/CFT framework remains based on a minimum harmonisation directive that relies on national implementation and allows a large number of national discretions and

options. In 2020, this approach will be under review by the European Commission. The EBA stands ready to inform resultant discussions in order to make the EU a truly hostile place for financial crime, including in respect of changes to the legal framework and the setting up of a more centralised AML authority.

Contributing to the sound development of financial innovation and sustainability

Coordinating the European Forum for Innovation Facilitators

In April 2019, EFIF was established on a joint basis by the ESAs to enable supervisors to share their experiences, technological expertise, and reactions to the latest technology and innovations. EFIF also enables supervisors to leverage knowledge gained from innovation facilitator initiatives and to discuss specific technology applications and use cases.

Throughout 2019 and into 2020, the EBA is hosting EFIF to support closer engagement between the European Commission, the ESAs and national authorities, with a view to facilitating the fine-tuning of regulatory and supervisory expectations at a pace that is in close alignment with market developments, thus supporting the scaling up of innovation across the EU financial sector.

Monitoring RegTech and SupTech developments

In 2020, the EBA will closely monitor existing and emerging RegTech and SupTech solutions in the financial sector, which are expected to deeply redesign how market participants address regulatory and compliance requirements and how competent authorities perform their supervisory activities.

The term 'RegTech' refers to the use of technology by regulated institutions to meet regulatory compliance and reporting requirements more effectively and efficiently, while the term 'SupTech' refers to the use of technology-enabled innovations by supervisory authorities to facilitate and enhance their supervisory work.

In 2019, the EBA conducted an initial overview of RegTech and SupTech developments across the EU, observing multiple use cases, in particular in the fields of AML, fraud detection, compliance, regulatory reporting, market surveillance, and data visualisation and analysis.

At this stage, the EBA aims to facilitate knowledge-sharing among competent authorities on SupTech and RegTech solutions through its

FinTech Knowledge Hub and to support competent authorities in the digitisation of supervisory processes.

To achieve this objective, the EBA intends to carry out several initiatives aimed at sharing relevant experiences of SupTech and RegTech development and application, engaging with competent authorities, financial institutions, technology providers and academics.

Specifically in the case of SupTech, the EBA considers it beneficial to disseminate knowledge among competent authorities on how innovative technologies can be used for supervisory purposes, and it intends to host a dedicated SupTech workshop. Through such initiatives, supervisors across the EU are expected to leverage on the approaches and methodologies adopted by one another.

Based on the outcomes of this work, and in addition to its knowledge-building role, the EBA will evaluate and consider if and where additional focus is needed to identify any potential obstacles to the use of RegTech and

SupTech solutions, and what actions or policy recommendations could be considered to facilitate and encourage the use of RegTech and SupTech both by financial institutions and by supervisory authorities.

In this context, further work by the EBA may be needed to carefully assess the challenges and opportunities associated with the use of technology for regulatory, compliance and supervisory purposes and to promote a common approach to the application of these technologies.

Assessing the impact of platformisation

In 2020, the EBA will carry out an analysis to inform a thematic report focusing on the trend towards the reaggregation of products and services on digital platforms. The analysis will extend to reviewing different business models and considering the risks and opportunities for consumers, for institutions and for the resilience and stability of the financial system.

Taking account of this analysis, the EBA will consider the adequacy of the EU framework for financial regulation (e.g. licensing arrangements, adequacy of supervisory arrangements, etc.), including any obstacles that may currently impede the scaling up of platforms across the EU.

Monitoring developments in the retail payments market

In 2020, the EBA will continue its supervisory convergence work to support the implementation of the PSD 2 provisions on access to payment accounts and SCA, in order to achieve the PSD 2 objectives of promoting innovation and competition in the payments market and ensuring customer protection and security. To those ends, the EBA will continue to support the industry in the implementation of high-performing interfaces to enable access to payment ac-

count data and monitor the extent to which these meet the legal requirements of PSD 2 and the RTS on SCA and CSC. The EBA will also monitor how the requirements of PSD 2 and the RTS on secure authentication are implemented and applied across the EU with regard to innovative means of payment, and close attention will be paid in particular to the migration of payment service providers to SCA for e-commerce card-based payment transactions.



Integrating ESG dimensions into the supervisory framework

After laying the foundation for its work on sustainable finance in 2019, the EBA will continue to deliver on specific mandates and action points included in its action plan on sustainable finance.

In 2020, the EBA will continue with work on the sustainable finance agenda through a number of activities and publications. The work will follow the sequence reflected in the mandates, which can be summarised as:

- strategy and risk management;
- key metrics and disclosure;
- stress testing and scenario analysis;
- prudential treatment.

First, the EBA will publish consultation papers stemming from the CRR and CRD mandates, in particular on the incorporation of ESG factors and ESG risks into strategies, risk management and the supervisory review process and the standards on Pillar 3 disclosure of ESG risks. The ESAs will jointly publish the technical standards on sustainability disclosure mandated to them in the Sustainability Disclosure Regulation.

Second, the EBA will conduct in 2020 a sensitivity analysis on climate risk for a sample of volunteering banks. The exercise will focus on transitional risks and consider a longer time horizon. The sensitivity analysis will help the EBA to gain a better understanding of banks' vulnerabilities to climate risk and provide a first estimate of the amount of brown and green exposures held by banks. In the longer term, the EBA aims to develop a dedicated

climate change stress test with the main objective of identifying banks' vulnerabilities to climate-related risk and quantifying the relevance of the exposures that could potentially be hit by physical risk and transition risk.

Third, the EBA will continue to monitor market practices on ESG risks and disclosure practices, working closely with relevant stakeholders to make use of the most advanced methods and practices when developing policy and risk analysis tools. This will involve continual contributions to the work of the Technical Expert Group on Sustainable Finance and of the Platform on Sustainable Finance that is expected to be set up in 2020.

Finally, the EBA will contribute to international efforts on policy development and supervisory practice-sharing, in particular by actively contributing to the newly established BCBS High-Level Task Force on Climate Risk and the activities of the Network for Greening the Financial System.



Promoting an operational framework for resolution

Delivering on regulatory mandates

The formal legislative texts related to the risk reduction measures package were adopted by the Council of the EU and the European Parliament on 20 May 2019 and published in the Official Journal of the European Union on 7 June 2019.

The package, among other things, provides an update to the BRRD and includes a number of mandates for the EBA to further specify technical aspects. These mandates refer to the es-

timation of capital requirements for the purpose of MREL setting, rules relating to indirect subscriptions of internal MREL (daisy chains) to ensure effective transmission of losses, MREL/TLAC reporting, the contractual recognition of stay powers in financial contracts and identifying conditions of impracticability for contractual recognition of bail-in. Work on these mandates started in 2019, with a target for delivery by the end of 2020.

Supporting coherence and progress on recovery and resolution decisions

Interlinkages between recovery and resolution planning

With the continuous progress made in the development of recovery and resolution planning under the BRRD, the EBA considers it important to focus on checking the effective interlinkages between those two potentially contiguous phases with the aim of helping to maximise synergies and ensure a smooth transition from one phase to the other.

Effective interaction between recovery and resolution plans helps to avoid inconsistencies between their contents, as well as reducing the risk that competent and resolution authorities might send conflicting requests to institutions or take contradictory actions to overcome shortfalls in recovery or resolution plans. Ultimately, effective interlinkages between recovery and resolution planning should also support competent and resolution authorities in fulfilling their tasks under the BRRD and promote more effective cooperation between them.

As a first step in analysing the interlinkages between recovery and resolution plans, the EBA has performed a comparative analysis of the recovery and resolution plans of a sample of European banking groups. To further support progress, the EBA has also examined a key aspect of interlinkages relating to the assessment of the potential impact of recovery options on an institution's resolvability; a practical tool (an assessment table) and a procedural approach have been developed.

This initial work has highlighted that further guidance work could be carried out on additional aspects of these interlinkages, including some practical aspects relating to the process of coordination between competent and resolution authorities.

MREL report

As part of its quantitative monitoring of MREL, the EBA will annually publish a report on the progress made by authorities in setting MREL requirements and by banks in issuing eligible instruments to meet these requirements.

Ensuring effective cooperation with third countries

Monitoring equivalence decisions

The main goal of equivalence in EU financial services legislation is to manage effectively cross-border activity of financial market players in a sound prudential environment, as third countries that have been assessed as equivalent adhere to the same high standards that are in force within the EU.

The experience gained by the EBA in carrying out assessments of the equivalence of third countries has highlighted the importance of establishing dedicated arrangements to facilitate effective cooperation and exchange of information and to enable follow-up monitoring. Moreover, the ongoing evolution of the regulatory and supervisory frameworks in third countries implies that the evidence on which equivalence decisions are taken needs to be constantly monitored, as reliance on an outdated equivalence assessment may bring new risks to the EU financial system.

The recent ESA review has strengthened the EBA's competences precisely on these two matters, by (i) expressly entrusting the EBA with the task of continuous monitoring of third-country regulatory and supervisory frameworks and (ii) establishing a closer link between the work on equivalence and relevant cooperation agreements with supervisory authorities from non-EU countries. Indeed, according to Art. 33(1) of the EBA regulation, "without prejudice to the respective competences of the Member States and the Union institutions, the EBA may develop contacts and enter into administrative arrangements with

regulatory, supervisory and, where applicable, resolution authorities, international organisations and third-country administrations."

In 2019, the EBA developed a new approach to provide a closer and more effective link between equivalence and cooperation arrangements with third countries, including a framework to support the prioritisation of jurisdictions for the assessments, the frequency of monitoring and the types of cooperation arrangements needed with relevant third-country authorities.

Therefore, in 2020 the EBA will work with the Commission to define a common monitoring plan for the years to come and will start by focusing on the monitoring of existing equivalence decisions on some selected jurisdictions, considering the most recent regulatory and market developments as well as general supervisory developments. This work will aim to ensure that equivalence decisions continue to fulfil the EU objectives for which they were taken and to gain an understanding of market and regulatory developments in third countries and of how third-country and EU financial institutions use equivalence decisions. In parallel, the EBA will start approaching third-country jurisdictions that have already been assessed as equivalent, with a view to negotiating and concluding appropriate arrangements that could support follow-up monitoring and, more generally, a satisfactory degree of cooperation with third countries.

Annexes

EBA organisational structure



Composition as of 31 December 2019.



Accounting Officer
Jordi Climent-Campins



Policy Coordination
Philippe Allard

Communications



Legal Services
Jonathan Overett Somnier



Operations
Peter Mihalik



Corporate Support
Katerina Karypidou



Finance and Procurement
Fergus Power



Human Resources
Aneta Al Hafoudhova



Information Technology
Radu Burghilea

Board of Supervisors

VOTING MEMBERS

COUNTRY	INSTITUTION	TYPE OF MEMBERSHIP	NAME
Austria	Österreichische Finanzmarktaufsicht	Head	Helmut Ettl
		Alternate	Michael Hysek
Belgium	Nationale Bank van België/Banque Nationale de Belgique	Head	Jo Swyngedouw
		Alternate	Jurgen Janssens
Bulgaria	Bulgarian National Bank	Head	Radoslav Milenkov
		Alternate	Stoyan Manolov
Croatia	Hrvatska Narodna Banka	Head	Martina Drvar
		Alternate	Sanja Petričić Turković
Cyprus	Central Bank of Cyprus	Head	Stelios Georgakis
		Alternate	Elena Gregoriadou
Czech Republic	Česká Národní Banka	Head	Zuzana Silberová
		Alternate	Marcela Gronychová
Denmark	Finanstilsynet	Head	Jesper Berg
		Alternate	–
Estonia	Finantsinspektsioon	Head	Andres Kurgpõld
		Alternate	Kilvar Kessler
Finland	Finanssivalvonta	Head	Anneli Tuominen
		Alternate	Jyri Helenius
France	Autorité de Contrôle Prudentiel et de Résolution	Head	Dominique Laboureix
		Alternate	Emmanuelle Assouan
Germany	Bundesanstalt für Finanzdienstleistungsaufsicht	Head	Raimund Röseler
		Alternate	Peter Lutz
Greece	Bank of Greece	Head	Spyridoula Papagiannidou
		Alternate	Kyriaki Flesiopoulou
Hungary	Magyar Nemzeti Bank	Head	Csaba Kandrács
		Alternate	Gergely Gabler
Ireland	Central Bank of Ireland	Head	Gerry Cross
		Alternate	Mary-Elizabeth McMunn
Italy	Banca d'Italia	Head	Andrea Pilati
		Alternate	Bruna Szego
Latvia	Finanšu un Kapitāla Tirgus Komisija	Head	Santa Purgaile
		Alternate	Ludmila Vojevoda
Lithuania	Lietuvos Bankas	Head	Marius Jurgilas
		Alternate	Jekaterina Govina
Luxembourg	Commission de Surveillance du Secteur Financier	Head	Christiane Campill
		Alternate	Martine Wagner
Malta	Malta Financial Services Authority	Head	Marianne Scicluna
		Alternate	Pierre Paul Gauci
Netherlands	De Nederlandsche Bank	Head	Maarten Gelderman
		Alternate	Sandra Wesseling

COUNTRY	INSTITUTION	TYPE OF MEMBERSHIP	NAME
Poland	Komisja Nadzoru Finansowego	Head	Artur Ratasiewicz
		Alternate	Kamil Liberadzki
Portugal	Banco de Portugal	Head	Ana Paula Serra
		Alternate	Luís Costa Ferreira
Romania	Banca Națională a României	Head	Nicolae Cinteza
		Alternate	Adrian Cosmescu
Slovakia	Národná Banka Slovenska	Head	Vladimír Dvořáček
		Alternate	Tatiana Dubinová
Slovenia	Banka Slovenije	Head	Primož Dolenc
		Alternate	Damjana Igljič
Spain	Banco de España	Head	Jesús Saurina Salas
		Alternate	Alberto Ríos Blanco
Sweden	Finansinspektionen	Head	Karin Lundberg
		Alternate	Björn Bargholtz
UK	Bank of England's Prudential Regulation Authority	Head	Sam Woods
		Alternate	Charlotte Gerken

EEA/EFTA MEMBERS

Iceland	Fjármálaeftirlitið	Member	Unnur Gunnarsdóttir
		Alternate	Finnur Sveinbjörnsson
Liechtenstein	Finanzmarktaufsicht Liechtenstein	Member	Patrick Bont
		Alternate	Markus Meier
Norway	Finanstilsynet	Member	Morten Baltzersen
		Alternate	Ann Viljugrein
-	EFTA Surveillance Authority	Member	Frank Büchel
		Alternate	Gunnar Thor Pétursson

OBSERVERS

INSTITUTION	NAME
Single Resolution Board	Sebastiano Laviola

OTHER NON-VOTING MEMBERS

ESMA	Verena Ross
EIOPA	Fausto Parente
ECB	Fátima Pires, Carmelo Salleo
ECB Supervisory Board	Yves Mersch, Korbinián Ibel
European Commission	Martin Merlin, Dominique Thienpont
European Systemic Risk Board	Francesco Mazzaferro

Management Board

In accordance with the EBA's founding regulation, the Management Board ensures that the EBA carries out its mission and performs the tasks assigned to it. It is composed of the EBA Chairperson and six other members of the Board of Supervisors elected by and from its voting members. The Executive Director, the EBA Alternate Chairperson and a representative of the Commission also participate in its meetings.

Three new members, representing the Croatian, Dutch and Greek competent authorities, joined the Management Board in 2019. At the end of December 2019, the Management Board was composed of four members from participating SSM Member States (Germany, Greece, the Netherlands and Spain) and two members from non-participating SSM Member States (Denmark and Croatia). The Board of Supervisors considered this representation balanced and proportionate as well as reflecting the Union as a whole.

The Management Board met five times in 2019. To guarantee the transparency of its decision-making, minutes of the Management Board's meetings are published on the EBA website.

MANAGEMENT BOARD COMPOSITION AS OF 31 DECEMBER 2019

COUNTRY	INSTITUTION	MEMBER
Croatia	Hrvatska Narodna Banka	Martina Drvar
Denmark	Finanstilsynet	Jesper Berg
Germany	BaFin	Raimund Roeseler
Greece	Bank of Greece	Sissy Papagiannidi
Netherlands	De Nederlandsche Bank	Maarten Gelderman
Spain	Banco de España	Jesús Saurina Salas
-	European Commission	Martin Merlin
-	European Banking Authority	José Manuel Campa (Chairperson)
-	National Bank of Belgium	Jo Swyngedouw (Alternate Chairperson)

Banking Stakeholder Group

MEMBER	SELECTED TO REPRESENT	ORGANISATION	POSITION	COUNTRY
André Prüm	Top-ranking academics	University of Luxembourg	Professor	LU
Andrea Sita	Employees	Fondo Pensione Complementare	Member of the Board of Auditors	IT
Angel Berges-Lobera	Top-ranking academics	Universidad Autonoma de Madrid	Professor	ES
Angelo Baglioni	Top-ranking academics	Università Cattolica Milano	Professor	IT
Dermott Jewell	Consumers	Consumers' Association of Ireland	Consumers' representative	IE
Edgar Löw	Top-ranking academics	Frankfurt School of Finance and Management	Professor of accounting	DE
Emilios Avgouleas	Top-ranking academics	University of Edinburgh	Professor	EL
Fily Anne	Consumers		Independent consultant	FR
Gerda Holzinger-Burstaller	Credit institutions	Erste Group Bank	Chief Financial Officer and Chief Risk Officer	AT
Giedrius Steponkus	Users of banking services	Lithuanian Investors Association	Chairman of the Board	LT
Herve Guider	Employees	EACB	Managing Director	FR
Jean Naslin	Credit institutions	Caixa Bank	Executive Director, Adviser to Chairman	FR
Lara De Mesa Garate	Credit institutions	Banco Santander	Global Head of Responsible Banking, Executive Chairman's Office	ES
Leonhard Regneri	Employees	Input Consulting GmbH	Consultant	DE
Luigi Guiso	Top-ranking academics	Eunadi Institute for Economics and Finance	Professor	IT
Lyubomir Karimansky	Users of banking services		Independent official	BG
Marko Košak	Top-ranking academics	University of Ljubljana	Professor	SI
Martin Schmalzried	Consumers	COFACE – Confederation of Family Organisations in the EU	Senior Policy and Advocacy Manager	CZ
Monica Calu	Consumers	Consumers United/Consumatorii Uniți	President	RO
Monika Marcinkowska	Top-ranking academics	University of Lodz	Professor, Chair of the institute	PL
Rym Ayadi	Top-ranking academics	CASS Business School, City University of London	Professor	UK
Sabine Masuch	Credit institutions	Association of Private Building and Loan Associations	Legal Consultant and Head of the Arbitration Board	DE
Sebastien de Brouwer	Credit institutions	European Banking Federation	Chief Policy Officer	BE
Sergio Lugaresi	Credit institutions	Italian Banking Association	Representative of the industry	IT
Søren Holm	Credit institutions	Nykredit	Chief Risk Officer	DK
Thaer Sabri	Credit institutions	Electronic Money Association	Chief Executive Officer	UK
Tomas Kybartas	Consumers	Alliance of Lithuanian Consumer Organisations	Member of the Board	LT
Veronique Ormezzano	Credit institutions	BNP Paribas	Head of Group Regulatory Affairs	FR
Victor Cremades Erades	Consumers	Association of Consumers and Users of Banks, Savings Banks, Financial Products and Insurance (ADICAE)	Chairman of the ADICAE's Legal Committee	ES
Vinay Pranjivan	Consumers	Portuguese Consumer Association (DECO)	Expert in financial services	PT

Budget summaries

The amended budget for 2019 is published in the Official Journal of the European Union (available at [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020B0331\(43\)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020B0331(43))).

Establishment plan

Category and grade	Establishment plan in EU budget 2019		Filled as of 31.12.2019	
	Officials	TA	Officials	TA
AD 16		1		0
AD 15		1		2
AD 14		2		2
AD 13		2		1
AD 12		8		7
AD 11		12		6
AD 10		12		13
AD 9		18		17
AD 8		26		26
AD 7		20		32
AD 6		18		26
AD 5		14		6
Total AD		134		138
AST 11		0		0
AST 10		0		0
AST 9		0		0
AST 8		0		0
AST 7		0		0
AST 6		3		0
AST 5		4		3
AST 4		2		1
AST 3		1		2
AST 2		1		0
AST 1		0		0
Total AST		11		6
AST/SC 6		0		0
AST/SC5		0		0
AST/SC4		0		0
AST/SC3		0		0
AST/SC2		0		0
AST/SC1		0		0
Total AST/SC		0		0
TOTAL		145		144

AD = Administrator AST = Assistant SC = Secretary CA = Contract agent FG = Function group

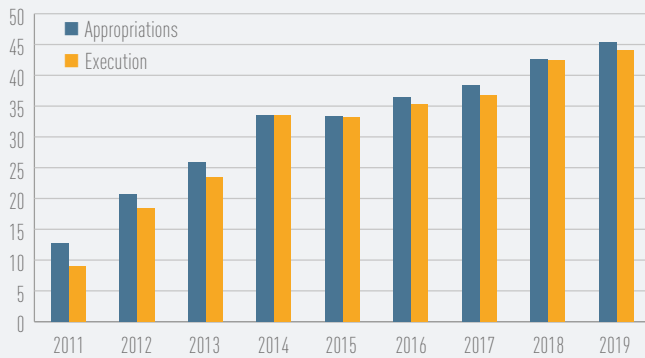
Statistics on disclosure

The Legal Unit is the central point for dealing with requests relating to transparency and public access to documents. In 2019, within the remit of Regulation (EC) No 1049/2001, the Legal Unit provided its advice on 23 formal requests for access to information.

Facts and figures

FINANCE

Annual budget avsexecution (in million EUR)



▶ Total budget: **EUR 45.327 million**

▶ Budget execution: **97.29%**

▶ Carry forward to 2020: **EUR 6.447 million**

PROCUREMENT

▶ New open procurement procedures: **4**

▶ Negotiated procedures (+EUR 15 000): **17**

▶ EBA participation in other EU institutions' framework contracts: **77**

▶ EBA participation in service-level agreements with other EU institutions: **15**

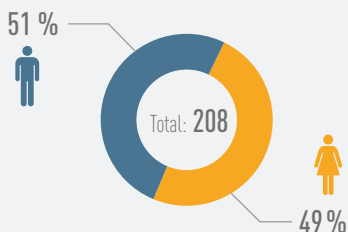
HUMAN RESOURCES

Total number of staff

(temporary agents (TAs), contract agents (CAs), seconded national experts (SNEs))

Gender	Temporary Agents				Total	%
	AD	AST	CA	SNE		
Female	62	5	29	6	102	49
Male	76	1	16	13	106	51
Total	138	6	45	19	208	100

Gender balance



▶ Posts from the establishment plan filled by year-end: **144**

▶ Vacancy notices published: **25**
of which 7 TAs, 5 CAs, 10 SNEs and 3 for reserve lists

▶ Number of applications received: **1 131**
83 interviewed

▶ Number of applications for reserve lists: **1 344**
66 interviewed

▶ Trainees with an administrative profile: **9**

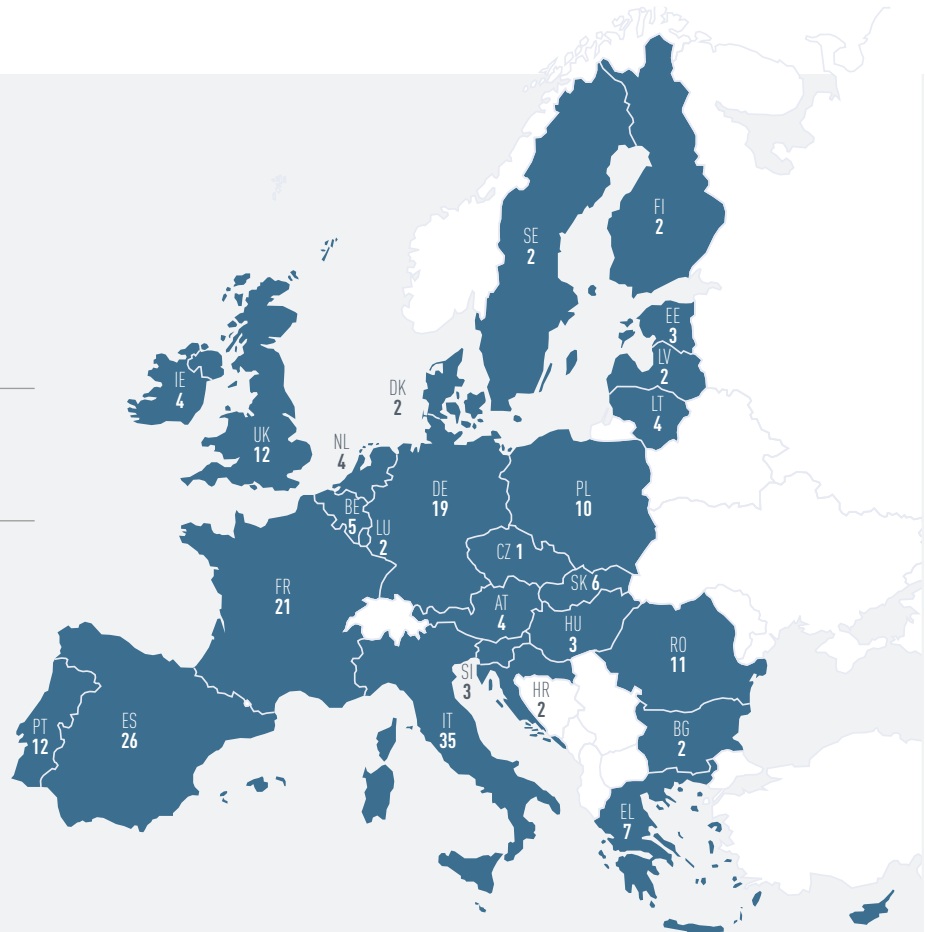
▶ Trainees with a technical profile: **9**

HUMAN RESOURCES

Geographical balance

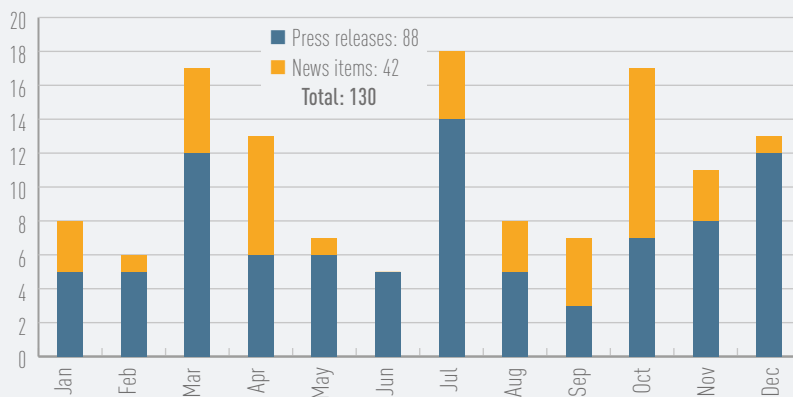
Breakdown by nationalities
(total staff 208)

▶ Average number of training days by staff member: **2.8**



PRESS AND COMMUNICATION ACTIVITIES

Number of communications outputs by month



Breakdown of interaction with media

- ▶ Interviews and background briefings: **46**
- ▶ Responding to external queries: **973**
- ▶ Responding to information requests: **1 396**

Translation and editing

▶ Final EBA publications proofread and published: **69**

▶ Publications translated into the 22 official languages of the EU: **7**

WEBSITE AND AND EXTRANET

Website visits

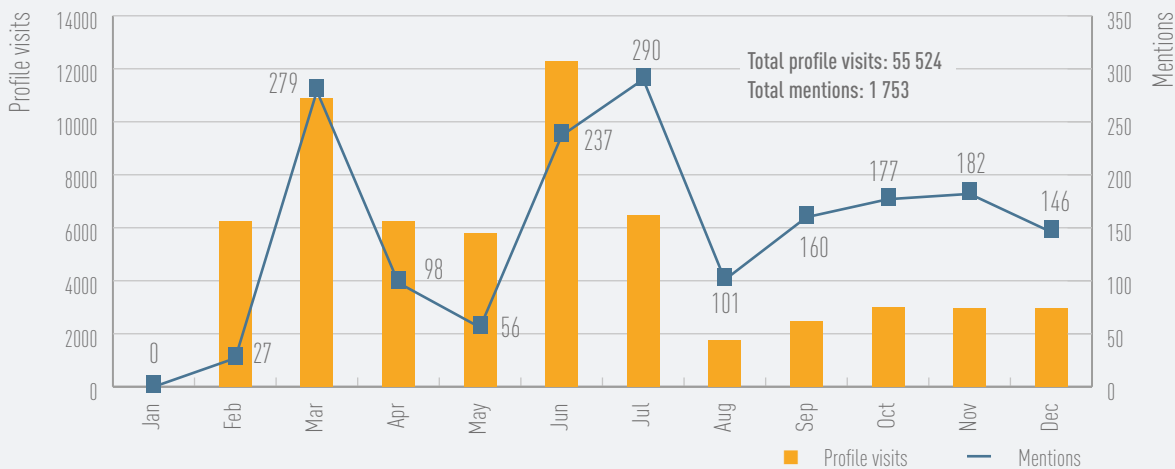
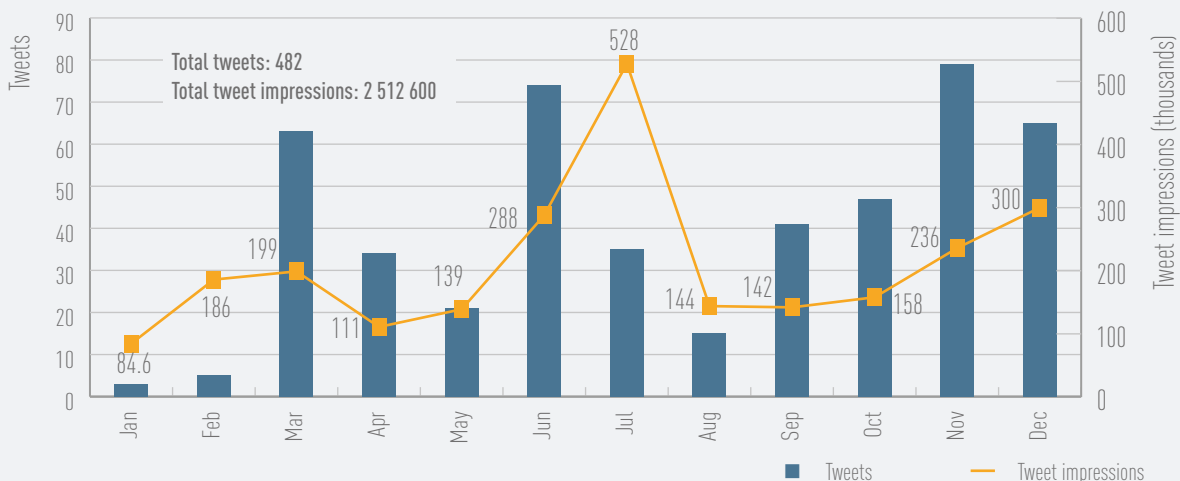
▶ EBA website visits: **2.53 million**

▶ Page views: **7.15 million**

Country	Users
Germany	214 101
United States	234 496
United Kingdom	180 650

▶ Extranet requests for support: **1 001**

Twitter presence



TRAINING PROVIDED TO COMPETENT AUTHORITIES

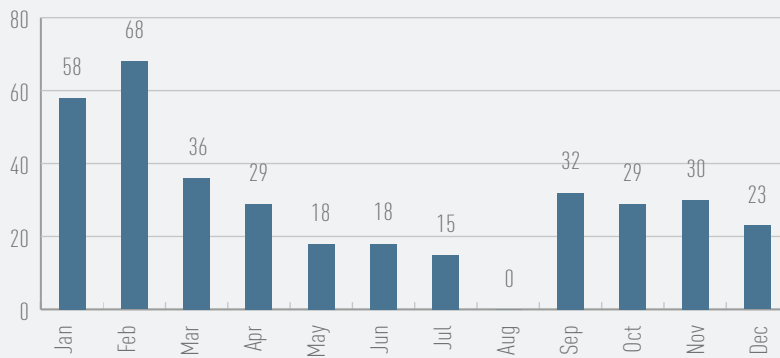
▶ EBA learning hub: **323**
new accounts

▶ Online: **3**
for 147 participants

▶ Physical: **8**
for 341 participants

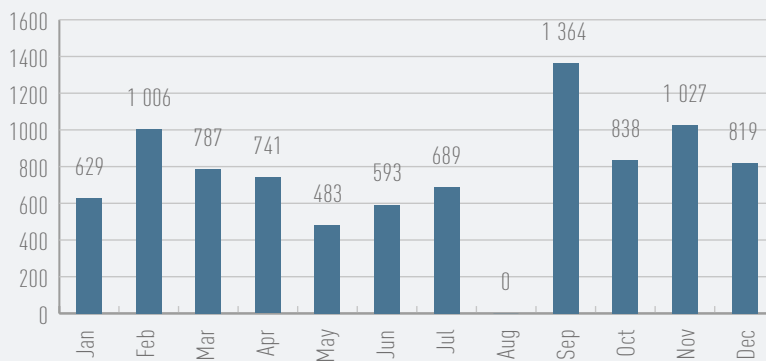
EVENTS

Number of events in 2019



▶ Total number of events: **641**

Number of participants in 2019



▶ Total number of participants: **10 096**

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EUROPEAN BANKING AUTHORITY

Floor 24-27, Europlaza, 20 avenue André Prothin,
La Défense 4, 92400 Courbevoie, France

Tel. +33 1 86 52 7000

E-mail: info@eba.europa.eu

<http://www.eba.europa.eu>



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