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### Abbreviations

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<tr>
<td>4AMLD</td>
<td>Fourth Anti-Money Laundering Directive</td>
</tr>
<tr>
<td>ACPR</td>
<td>Autorité de Contrôle Prudentiel et de Résolution</td>
</tr>
<tr>
<td>AISP</td>
<td>account information service provider</td>
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<tr>
<td>AMC</td>
<td>asset management company</td>
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<tr>
<td>AML/CFT</td>
<td>anti-money laundering/countering the financing of terrorism</td>
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<tr>
<td>AMLCO</td>
<td>anti-money laundering compliance officer</td>
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<tr>
<td>APR</td>
<td>all price risk</td>
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<tr>
<td>BBVA</td>
<td>Banco Bilbao Vizcaya Argentaria</td>
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<tr>
<td>BCBS</td>
<td>Basel Committee on Banking Supervision</td>
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<tr>
<td>BFG</td>
<td>Bankowy Fundusz Gwarancyjny</td>
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<tr>
<td>BoS</td>
<td>Board of Supervisors</td>
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<tr>
<td>BRRD</td>
<td>Bank Recovery and Resolution Directive</td>
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<td>BSG</td>
<td>Banking Stakeholder Group</td>
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<tr>
<td>BUL</td>
<td>breach of Union law</td>
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<tr>
<td>CA</td>
<td>competent authority</td>
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<tr>
<td>CBC</td>
<td>Central Bank of Cyprus</td>
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<td>CBCM</td>
<td>Cross-Border Crisis Management Group</td>
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<td>CCP</td>
<td>central counterparty</td>
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<tr>
<td>CDD</td>
<td>customer due diligence</td>
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<tr>
<td>CEBS</td>
<td>Committee of European Banking Supervisors</td>
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<tr>
<td>CET1</td>
<td>common equity tier 1</td>
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<tr>
<td>CFA</td>
<td>call for advice</td>
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<td>CMU</td>
<td>Capital Markets Union</td>
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<td>CMVM</td>
<td>Portuguese Securities Market Commission</td>
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<td>CNB</td>
<td>Czech National Bank</td>
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<td>COREP</td>
<td>common reporting</td>
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<tr>
<td>CRD</td>
<td>Capital Requirements Directive</td>
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<td>CRM</td>
<td>credit risk mitigation</td>
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<tr>
<td>CRR</td>
<td>Capital Requirements Regulation</td>
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<tr>
<td>CSDR</td>
<td>Central Securities Depositories Regulation</td>
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<tr>
<td>CVA</td>
<td>credit valuation adjustment</td>
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<tr>
<td>DGS</td>
<td>deposit guarantee scheme</td>
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<td>DGSD</td>
<td>Deposit Guarantee Schemes Directive</td>
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<td>DNB</td>
<td>De Nederlandsche Bank</td>
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<tr>
<td>DPM</td>
<td>Data Point Model</td>
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<tr>
<td>EBA</td>
<td>European Banking Authority</td>
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<tr>
<td>ECAI</td>
<td>external credit assessment institution</td>
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<td>ECB</td>
<td>European Central Bank</td>
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<tr>
<td>EDPS</td>
<td>European Data Protection Supervisor</td>
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<td>EEA</td>
<td>European Economic Area</td>
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<tr>
<td>EFSF</td>
<td>European Financial Stability Facility</td>
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<td>EIOPA</td>
<td>European Insurance and Occupational Pensions Authority</td>
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<tr>
<td>EMI</td>
<td>electronic money institution</td>
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<td>EMIR</td>
<td>European Market Infrastructure Regulation</td>
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<td>European Supervisory Authority</td>
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<td>ESMA</td>
<td>European Securities and Markets Authority</td>
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<td>ESRB</td>
<td>European Systemic Risk Board</td>
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<td>EU</td>
<td>European Union</td>
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<tr>
<td>EUCLID</td>
<td>European Centralised Infrastructure for Supervisory Data</td>
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<td>EUI</td>
<td>European University Institute</td>
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<tr>
<td>FCA</td>
<td>framework cooperation arrangement</td>
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<td>FID</td>
<td>fee information document</td>
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<tr>
<td>FIN-FSA</td>
<td>Finnish Financial Supervisory Authority</td>
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<td>FINREP</td>
<td>financial reporting</td>
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<td>FinTech</td>
<td>financial technology</td>
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<td>FME</td>
<td>Fjármálaeftirlitíð</td>
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FRTB fundamental review of the trading book
FSA financial supervisory authority
FSB Financial Stability Board
FSMA Financial Services & Markets Act
FX foreign exchange
GDP gross domestic product
GL guidelines
GLRA group-level resolution authority
G-SIB global systemically important bank
G-SII global systemically important institution
HANFA Croatian Financial Services Supervisory Agency
HDP high default portfolios
ICAAP internal capital adequacy assessment process
ICT information and communication technology
IFR Interchange Fee Regulation
IFRS International Financial Reporting Standards
IQR interquartile dispersion
IRB internal ratings based
IRC incremental risk charge
IRRBB interest rate risk in the banking book
ISRB Interactive Single Rulebook
IT information technology
ITS implementing technical standards
KID key information document
KNF Komisja Nadzoru Finansowego
LCR liquidity coverage ratio
LDP low default portfolios
LGD loss given default
LMS learning management system
LSI less significant institution
MDM Master Data Management
MFSA Malta Financial Services Authority
MiFID Markets in Financial Instruments Directive
ML/TF money laundering/terrorist financing
MoU memorandum of understanding
MREL minimum requirement for own funds and eligible liabilities
NBB National Bank of Belgium
NPL non-performing loan
OFI other financial intermediary
O-SII other systemically important institution
OTC over-the-counter
P&L profit and loss
P2G Pillar 2 capital guidance
P2R Pillar 2 requirement
PAD Payment Accounts Directive
PD probability of default
PI payment institution
PII professional indemnity insurance
POG product oversight and governance
PRA Prudential Regulation Authority
PRIIP packaged retail and insurance-based investment product
PSD2 Revised Payment Services Directive
Q&A question and answer
RAQ risk assessment questionnaire
RAR Risk Assessment Report
RBS risk-based supervision
ResG Resolution Steering Group
RTS regulatory technical standards
RWA risk-weighted asset
SA-CCR standardised approach for counterparty credit risk
SCA sectoral competent authority
SCConFin Committee on Consumer Protection and Financial Innovation
SME small and medium-sized enterprise
SoF statement of fees
SRB Single Resolution Board
SREP Supervisory Review and Evaluation Process
SSH Single Supervisory Handbook
SSM Single Supervisory Mechanism
STS simple, transparent and standardised
TLAC total loss absorption capacity
VaR value at risk
XBRL Extensible Business Reporting Language
Foreword by the Chairperson

The EBA is a very young organisation, only seven years old at the time of writing. Still, in this short span of time we have been confronted with extraordinary challenges and have repeatedly adjusted our mission in light of external developments. Whilst originally the EBA was clearly conceived as an embryo of a European supervisor, which could, through time, take up direct supervisory tasks – as it is happening, for instance, to our sister authority in securities markets, ESMA –, the establishment of the Banking Union required a first important refocusing of our mission. Our tasks have become increasingly centred on ensuring the integrity of the Single Market as a whole and the appropriate balance between countries participating in the Banking Union and those, outside the euro area, which so far have decided not to participate – between “ins” and “outs”. This function was particularly relevant due to the significant presence of euro area banks in Central and Eastern European countries and to the centrality of London financial markets for wholesale and investment banking business denominated in euro.

The decision of the UK to leave the European Union is now imposing a further reflection on our mission. Almost 90% of banking assets in the 27 Member States of the post-Brexit EU are controlled by banks headquartered in the euro area. While the issue of balance between “ins” and “outs” remains relevant in terms of home-host relations, there are now stronger arguments for a closer cooperation and coordination between the EBA and the institutions of the Banking Union, the Single Supervisory Mechanism (SSM) of the ECB and the Single Resolution Board (SRB). In practice, this means that we need to work together to foster more uniform rules and a more consistent application of the Single Rulebook across Member States to deliver the intended outcomes of the Banking Union. Convergence in supervisory practices, in turn, will be instrumental to ensure greater integration of banking markets across the whole EU to the increasingly vocal complaints from the industry that cross-border business and consolidation is severely hindered by remaining regulatory and supervisory obstacles, even within the Banking Union.

At the same time, the legislative proposals to review tasks, governance and funding of the European Supervisory Authorities (ESAs) entail important additional changes, currently to the attention of the co-legislators. In my view, the Commission’s proposals correctly reflect the experience of the first years of work of the ESAs. Governance arrangements should be appropriately reconsidered. At least some more executive tasks, such as decisions on breaches of Union law, mediation and stress testing, require more executive decision making. Independent reviews of supervisory practices could prove particularly helpful, especially in some areas, such as anti-money laundering, where...
ferring and sometimes weak national practices could put under jeopardy the safety and integrity of the Single Market. The extension of the legal remit of the EBA is essential to expand our efforts in the consumer protection area. Greater attention to innovation and sustainable finance is warranted. The international role, in particular in the assessment of equivalence of third countries, needs to be strengthened in light of the effects of Brexit. Current funding arrangements have proven a serious constraint, for example when the EBA tried to develop an EU-wide training for supervisors, which I view as an essential ingredient for a common supervisory culture.

The relocation of the EBA to Paris, as a result of the decision of the UK to leave the EU, adds new challenges to the picture, to ensure continuity in our functions and maintain the high standard of quality in our products, notwithstanding all the uncertainties facing the staff and the unavoidable turnover that will accompany the move. I am sure the intense commitment and passion of our staff, which is the essence of our strength, will allow us to navigate this period of change, emerging as a more mature and trusted authority.

While a lot is changing for the EBA, the regulatory framework is now stabilising. During 2017, the EBA finalised important components of the Single Rulebook and the remaining regulatory uncertainty linked to the finalisation of the Basel standards came to an end with the agreement achieved in December. This allows us to press on with addressing excessive variability in risk-weighted assets and restoring credibility to internal models used for regulatory purposes, whilst allowing banks to get back to effective capital planning. Proportionality in regulation, supervision and reporting will also be a focus along with enhanced transparency to improve market discipline.

Progress has also been made in the application of the other key chapter of the regulatory reform package: the Bank Recovery and Resolution Directive (BRRD), the EU framework designed to resolve banks in an orderly fashion and address the “too big to fail” issue. However, recovery and resolution plans will require further refinements to become operational. The first resolution and liquidation cases under the BRRD allowed identifying issues that may call for a reconsideration of certain aspects of the legislative framework. I think that a truly integrated framework for managing banking crises should include harmonised rules on ordinary liquidation. Also, the existence of a public interest in case of a bank failure is being assessed differently across the Union, reflecting different national preferences on the use of public support mechanisms and possible negative effects on the level playing field within the Single Market.

Payments services and financial innovation became more and more central in the EBA’s agenda. The revised Payment Services Directive (PSD2), which entered into force on 13 January 2018, is changing the landscape of banking by facilitating innovation, enhancing competition in payment services and allowing new service providers to access customers’ payments accounts at incumbent banks in a secure and standardised way. PSD2 mandated us to develop 13 Technical Standards and Guidelines and last year we consulted on all these regulatory products. In many cases, we had to achieve a complex balance in the trade-off between technological neutrality and the integration of the Single Market for payment services. Another key objective for the EBA is that customers benefit from new technologies but stay protected. To achieve this objective, the instruments for protecting consumers need to be upgraded to reflect the new technological realities. This will be a key objective
for us. We launched a general discussion on technological innovation in financial services (FinTech) last year and already developed a comprehensive roadmap for our work.

The ongoing effort to cleanse banks’ balance sheets and reduce non-performing loans (NPLs), which are a blight on lenders, on borrowers and the wider economy, continues. Progress has been substantial in 2017 but needs to continue and now we need to put in place safeguards to ensure that large build-ups of NPLs do not recur. As part of the Council’s action plan, we are doing much to support this process from the development of detailed templates to facilitate sales to guidelines to help manage NPLs more effectively and work on loan origination. Thus, we fully expect the Council’s action plan will bear its fruits and lead the adjustment process to a fast completion.

Finally, the UK’s decision to withdraw from the EU raises complex challenges for the financial industry and the community of bank regulators and supervisors. The most immediate area of attention are the risks that a disorderly Brexit may pose to individual firms and to financial stability more generally. Regulators and firms should press ahead with their worst-case Brexit preparations and ensure that all the necessary arrangements are in place for March 2019. We have been clear that firms seeking new or expanded authorisations should have real substance and risk management capacity. They also have to take action and ensure they will be able to continue provide services to customers under current financial contracts. Preparatory work is needed also to ensure compliance to the stricter rules on the transfer of data and to maintain continuity of access to financial market infrastructures and funding sources. The EBA, in close liaison with competent authorities, will continue to monitor these developments.

As you can see, our agenda remains very dense and challenging. I am very pleased with the progress made in 2017, on which we can build our further efforts to strengthen the European banking sector to make it safer and stronger for European customers. Let me conclude by thanking all the EBA staff for their commitment, their strong work ethic and truly European approach. Also, the high standard of quality of our work and the actual delivery of our objectives in the day-to-day application of our products would not be possible without the active involvement of many experts from national and European authorities.
Interview with the Executive Director

1. 2017 has been a rather decisive year for the EBA following the decision of the UK to withdraw from the EU. How do you think this decision will change the role of the Authority going forward?

The decision of the UK to withdraw from the EU has and is indeed raising important challenges for the entire EU financial sector. I think that the biggest concern relating to the impending withdrawal, at this moment of the withdrawal process, is the uncertainty about the exact path and timeline Brexit will follow. I specifically refer to the question of a transition period and the end state of the relationship after the transition with respect to financial services, all subject to the successful conclusions of the political negotiations. It is, therefore, important, from a stability point of view, that such an uncertainty is reduced as much as possible in order to minimise negative implications, irrespective of the chosen scenario. But at the same time, as long as the uncertainty prevails, the sector needs to prepare for managing all scenarios including a possible cliff edge without a withdrawal agreement.

As to the direct impact of the UK decision on the EBA, I would like to highlight that our role has already changed in the past in response to other significant developments in the external environment, such as, for instance, the establishment of the Single Supervisory Mechanism in the context of the Banking Union. So, the EBA is ready for change and can adapt. However, this time the change will also be coupled by a relocation of the Authority itself. The EBA’s role as a bridge between Banking Union and non-Banking Union members is expected to change with Brexit, due to the withdrawal of a significant non-Banking Union member, but will remain important. However, our role with respect to third country authorities is likely to increase commensurately. This is foreseen, to some extent, in the Commission’s proposal of the ESAs’ review.

In terms of Brexit preparedness, the EBA is conducting a regular assessment of potential financial stability risks, and monitoring the adaptation of the EU industry to the challenges posed by Brexit. The Opinion, which we issued in October last year, pointed to various regulatory and supervisory issues in the context of Brexit, and highlighted the minimum EU standards that should be applied by national authorities.

Finally, as I mentioned before, a direct impact of Brexit on the EBA will be the change in its legal seat and a move of location from London to Paris. The French and the Paris regional governments are providing a lot of assistance to the EBA and our staff in this process. Our focus will be on business continuity, and we as an organisation will of course be carrying out the same kind of contingency planning and readiness measures, which we are encouraging individual private sector firms to undertake.
2. What were the main operational challenges you had to face to ensure an orderly move to Paris as well as to reassure the staff?

Following the selection of Paris as the new seat of the EBA last November, we had to put in place all the necessary arrangements that will allow us to be fully operational and functional in our new seat by March 2019.

The very first task is the selection of the new premises, and for that, we launched a public tender late last year to select a property advisor who could help us prospect the property market in Paris. This was followed by another public tender to actually select the office space that will meet our needs. A decision on the new seat will be known in the coming months and this will be a very important step as it will allow us to start planning a number of other important projects to ensure a smooth and seamless relocation.

The second big challenge to ensure operational continuity for the organisation was to ensure the smooth transition of our colleagues. While the turnover rate of staff has increased since the vote, we are still able to attract the skilled individuals we need to replace colleagues who decide to leave the EBA. The certainty about the EBA’s future location in Paris is definitely of help. To manage possible staff turnover going forward, we have considered various measures, including the establishment of reserve lists for 10 different profiles from which vacancies can be filled quickly, if necessary.

Change can be unsettling for staff, and this is why keeping the team informed of the developments has always been our priority. We include relocation-related news in our monthly internal newsletter and we regularly hold general assemblies with the whole staff. We have also organised a few informative sessions with French authorities to familiarise our staff with the life in France in general, and specifically with the schooling, housing and administrative procedures. To cope with the language barrier, we started providing French classes to our staff and we are planning to extend the language training to the spouses as well with the support of the French authorities.

Finally, another big challenge will be the migration of our data centre infrastructure. We are currently working on the solution design, planning and contracting while in the second half of the year, we will focus on the execution and transitional services setup and support.

3. Another important decision, which will have an impact on the future of the Authority, is the review of the functioning of the ESAs. What are in your views the most important aspects to be improved for a more effective and efficient functioning of the EBA?

The European Commission’s proposal to review the functioning of the ESAs and the subsequent legislative proposal includes amendments to the ESA Regulations, which provide for new powers, an improved governance structure and a revised funding of the three supervisory authorities. Of course, Brexit also plays a role in this review. An improved governance is in my view one of the key priorities for the EBA, namely with respect to increasing the independence of the Authority’s decision-making processes in key supervisory convergence mandates such as stress tests and mediation as well as in AML and CFT.

Transparency has always been a top priority for the EBA and we have managed to position ourselves as a model of transparency in the banking sector. Despite lacking an explicit mandate, since our establishment, we have consistently pushed for additional disclosure and transparency in the EU banking sector as we considered
the dissemination of banks’ data as an integral part of our responsibility of monitoring risks and vulnerabilities and preserving financial stability in the Single Market. Our ambition is to have the legal basis to become a hub for coordination and transparency of reporting data and for that, it is important to streamline the current regime, which sets reporting and other highly technical requirements. This would allow us to adopt certain decisions directly with appropriate accountability safeguards.

Finally, I welcome the proposal to bring more consumer protection (consumer credit directive) and payments (interchange fee regulation, cross-border transfers in euro regulation) legislation within the EBA’s scope of action, creating a more coherent and comprehensive base for this work.

4. After 10 years in the making, the agreement on the Basel III framework is a major achievement but more remains to be done. What are in your view the key challenges ahead to ensure the revised framework is implemented in the EU in a full, timely and consistent manner? And what will be the EBA’s contribution in this process?

The Basel III framework agreed at the end of last year has been a major achievement as it addresses shortcomings of the pre-crisis regulatory framework and provides a regulatory foundation for a resilient banking system that supports the real economy. There were three challenges the international regulatory community was facing: removing regulatory uncertainty and bringing the reform process to a close; restoring the credibility of international standards and addressing excessive RWA variability; and reaffirming the commitment to the implementation of the full reform package in all G20 jurisdictions.

Implementing the revised framework in the EU will be indeed a major endeavour.

The European Commission has already opened an exploratory consultation on implementing the final aspects of Basel III into EU law, which will require changes to the Capital Requirements Directive and the Capital Requirements Regulation. As EBA, we traditionally provide technical advice on the impact and implementation of international standards in the EU, and thus have been asked to provide technical advice also on the implementation and the impact of the 2017 Basel reform on the EU banking system following the Commission’s consultation.

To be able to support the Commission, we will be launching a data collection in the summer. We will try to align the exercise with the regular Basel III monitoring exercise, which we traditionally run in parallel with the BCBS. Regarding the sample of banks, in order for the EBA to be able to advise legislators on how to implement the Basel reform in accordance with the principle of proportionality, our intention is to expand the QIS sample, beyond the institutions that traditionally participate in the Basel III monitoring exercises.
Interview with the Alternate Chairperson

1. You have been sitting at the EBA Board of Supervisors (BoS) table for some time now and for some years as Alternate Chairperson. How would you describe the cooperation between competent authorities and the EBA?

It is a privilege to sit at the BoS table and to have the opportunity to exchange views and take decisions within such a group of distinguished colleagues, with such different and complementary professional experiences and with the same objective of protecting the public interest by contributing to the stability and effectiveness of the EU financial system. The decision-making process with 28 Member States is not always straightforward and sometimes it is difficult to reach a final decision, as was obvious in the most acute moments of the financial crisis. But, fortunately, those type of situations are much more the exception than the rule.

The cooperation between national competent authorities and the EBA has been always extremely good and efficient. As a matter of fact, there is a continuous interaction at all levels of the ladder: ad hoc groups, task forces, committees and, finally, the Board of Supervisors. There are plenty of opportunities for national competent authorities to participate in, contribute to and influence the final positions of the EBA. It is also clear that the knowledge and accumulated experience that national authorities bring to the EBA table is a decisive contribution to the merit and technical robustness of the final positions of the EBA. From my point of view, as a BoS member, I always found from the EBA side total openness to be engaged – either in physical or telco ad hoc meetings, or through technical memos – in exchange of views in critical issues. I am convinced that, without such a close dialogue and without a clear understanding of the different perspectives of the national competent authorities, many important commitments would not have been possible.

2. What are, in your view, the key milestones this Authority has reached over the last few years?

Let me just start by highlighting the fact that, since its creation, the EBA has managed to create the image of an open, transparent and accountable organisation. Open in the way it engaged in meetings with industry representatives and associations of consumers, as well as in the fruitful interaction with the Banking Stakeholder Group. Transparent in the way public consultations have taken place thanks to a structured and formal interaction between the EBA and the stakeholders. Finally, accountable to the European institutions.
I would also like to highlight what is probably the most demanding and permanent exercise of the EBA as the guardian of the Single Rulebook, with the continuous focus on the development of a single set of harmonised prudential and conduct rules for EU financial institutions, as the only way to achieve a level playing field in the European space.

In this context, the work aimed to achieve a uniform definition of capital, through the adoption of common definitions and the rigorous monitoring of issuances of new capital instruments, has been extremely important. The EBA has also played a central role in implementing the key principle of ‘more and better’ capital – one of the key lessons drawn from the financial crisis, as the amount of good-quality, loss-absorbing capital was clearly inadequate – which is today reflected in a much more capitalised and resilient European banking sector. In addition, the annual transparency exercise – which, by the way, is a somewhat unique exercise – has been a very successful instrument to promote information on the European banking sector.

How would you see the role of the EBA going forward also in the light of the European Supervisory Authorities’ (ESAs’) review?

In my view, the priorities for the EBA’s work in the near future are the following: the reduction of the excessive variability in risk-weighted asset (RWA) modelling, now even more urgent given the recent Basel developments, and the consolidation of a multiple-metrics approach to adequacy of capital, through the increased use of the leverage ratio as a complementary indicator to the capital adequacy measures more frequently used; the need for a gradual minimum requirement for own funds and eligible liabilities (MREL) implementation, in the context of an incomplete Banking Union and the need to address the placement of the inherent market instruments across retail customers, in very close cooperation with the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA); in a context in which the regulatory reform is almost completed, supervision is supposed to have a more prominent role and, therefore, the convergence of supervisory practices – for instance, through the conduct of peer reviews – becomes more and more important; finally, consumer protection and financial innovation requires an extra effort by the EBA, as this is an area in which national regulatory and supervisory practices are very heterogeneous.

The strengthening of the EBA mandate on consumer protection is, fortunately, included in the legislative proposals on the review of the European Financial Stability Facility (EFSF). The strengthening of its role in monitoring and implementing equivalence decisions as well as in the development of a resolution handbook is also worth mentioning.

You have recently being appointed as the chairman of the EBA’s Committee on Consumer Protection and Financial Innovation (SCConFin). How do you see the work of the EBA in the fields of consumer protection and financial literacy?

Consumer protection ranks very high in the priorities of the EBA. Financial and technological innovation raise new challenges for the protection of clients of financial services as well as for the current business models, which is why it should be a priority for the EBA. The SCConFin is the natural place to discuss and develop the most important initiatives of the EBA in the fields of consumer protection and financial literacy and I am very happy to chair this committee and to have the opportunity to interact closely with the EBA staff and the representatives of the national competent authorities.
The work that the SCConFin has conducted over the last couple of years is very important. Many examples illustrate this point: the Consumer Trends Report, the Financial Education Report, the work on supervisory convergence – which is particularly important given the fact that conduct supervision is a recent development in most EU countries – a wide range of guidelines on good practices, as well a set of important warnings. In addition, and beyond the SCConFin, the roadmap on financial technology (FinTech) has also been a very important contribution of the EBA. I also find very fruitful the cooperation within the Joint Committee – as consumer protection requires a complete and consistent approach by the three supervisors of competing financial products – as well as with the Banking Stakeholder Group on consumer protection issues.

The EBA has a leading role in promoting transparency and fairness in the market for consumer financial services across the internal market. Going forward, it is my expectation – and also my wish – that consumer protection issues and digital banking/FinTech-related issues will become increasingly more important in the agenda of the EBA.

You completed two mandates as the chair of the Risk Sub-Committee in charge of the production of the Joint Committee Report on Risks and Vulnerabilities in the EU Financial System. How do you see the interaction between the ESAs and the usefulness of those reports?

I had the opportunity to work very closely with the staff of the EBA, EIOPA and ESMA – as well as the staff from the European Central Bank (ECB), the European Systemic Risk Board (ESRB) and national competent authorities – on the identification of the key cross-sectoral risks and vulnerabilities of the European financial system and on the required policy measures to mitigate the impact of those risks and to overcome the identified vulnerabilities. It has been an extremely rewarding experience for me, as it is precisely this cross-sectoral approach that makes this report unique and particularly useful for market participants, supervisors and policy-makers.

The nature of the risks identified has, naturally, varied over time and has covered a wide range of situations. The report has also the distinctive characteristic of recommending specific actions to financial market participants, regulators and supervisors with the purpose of overcoming the identified vulnerabilities and mitigating the possible adverse effects triggered by the main identified risks. This report has gained increased interest from the press, market participants and policy-makers. Let me take this opportunity to thank all participants in the sub-committee, in particular the colleagues from the ESAs and my colleagues at Banco de Portugal who have given me direct support in the production of the risk reports and have so closely liaised with the members of the sub-committee.
## Key publications and decisions

### JANUARY

- **OP** EBA publishes Opinion on the equivalence of supervisory and regulatory requirements in relation to Turkey and New Zealand
- **REP** EBA and ESMA publish joint Report on the functioning of the Capital Requirements Regulation (CRR) with the related obligations under European Market Infrastructure Regulation (EMIR)
- **O** EBA publishes Data Point Model (DPM) and Extensible Business Reporting Language (XBRL) taxonomy 2.6 for remittance of supervisory reporting
- **REP** EBA publishes updated Risk Dashboard with data as of Q3 2016
- **REC** EBA publishes updated recommendation on the equivalence of supervisory regimes

### FEBRUARY

- **REP** EBA publishes Report on Capital Requirements Directive (CRD) IV-CRR/Basel III monitoring exercise based on data as of 30 June 2016
- **CP** EBA consults on procedures for complaints of alleged infringements of the Revised Payment Services Directive (PSD2)
- **OP** EBA publishes Opinion on the European Commission’s intention to partially endorse and amend the final draft RTS submitted by the EBA establishing requirements to be complied with by payment card schemes and processing entities to ensure the application of independence requirements in terms of accounting, organisation and the decision-making process
- **REP** EBA publishes Report on high earners with data as of end 2015
- **RTS** EBA publishes final draft RTS on strong customer authentication and common and secure communication under Article 98 of PSD2
- **RTS** EBA publishes final draft RTS on the procedures for excluding transactions with non-financial counterparties established in a third country from the own funds requirement for credit valuation adjustment risk under Article 382(5) of the CRR
- **CP** ESAs consult on joint draft RTS on the criteria for determining the circumstances under which the appointment of a central contact point pursuant to Article 45(9) of Directive (EU) 2015/849 is appropriate and the functions of the central contact point
- **OP** ESAs publish joint Opinion on the risks of money laundering and terrorist financing affecting the Union’s financial sector
- **O** ESAs publish statement on variation margin exchange

### MARCH

- **OP** EBA publishes Opinion on improving the decision-making framework for supervisory reporting requirements under the CRR
- **CP** EBA consults on draft RTS on the specification of the nature, severity and duration of an economic downturn in accordance with Articles 181(3)(a) and 182(4)(a) of the CRR
- **CP** EBA consults on Recommendations on the coverage of entities in a group recovery plan
- **OP** EBA publishes Opinion on measures in accordance with Article 458 of the CRR
- **RTS** EBA publishes final draft RTS on disclosure of encumbered and unencumbered assets under Article 443 of the CRR
- **REP** EBA publishes Report on the functioning of supervisory colleges in 2016
- **REP** EBA publishes final Guidelines on liquidity coverage ratio (LCR) disclosure to complement the disclosure of liquidity risk management under Article 435 of the CRR
- **REP** EBA publishes Report on the results from the 2016 market risk benchmarking exercise
- **OP** EBA publishes Report on the results from the 2016 high default portfolios (HDP) exercise
- **OP** EBA publishes Opinion on transitional arrangements and credit risk adjustments due to the introduction of International Financial Reporting Standards (IFRS) 9
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<tr>
<td>APRIL</td>
<td>EBA publishes revised list of ITS validation rules</td>
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<td>APRIL</td>
<td>EBA publishes comparative Report on recovery options</td>
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<td>APRIL</td>
<td>EBA extends the Memorandum of Cooperation with South Eastern European banking supervisors to the Central Bank of Kosovo</td>
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<tr>
<td>APRIL</td>
<td>EBA publishes updated XBRL taxonomy 2.7 for supervisory reporting</td>
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<td>APRIL</td>
<td>EBA publishes Opinion on the partial waiver of Article 129(1)(c) of the CRR addressed to Germany’s Federal Financial Supervisory Authority (BaFin)</td>
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<tr>
<td>APRIL</td>
<td>EBA publishes Opinion on the partial waiver of Article 129(1)(c) of the CRR addressed to the Polish Financial Supervision Authority</td>
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<tr>
<td>APRIL</td>
<td>EBA publishes Report on the peer review of the ITS on supervisory reporting requirements</td>
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<tr>
<td>APRIL</td>
<td>EBA publishes amended ITS on supervisory reporting for EU institutions</td>
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<tr>
<td>APRIL</td>
<td>EBA publishes final Guidelines concerning the interrelationship between the Bank Recovery and Resolution Directive (BRRD) sequence of write-down and conversion and CRR/CRD</td>
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<td>APRIL</td>
<td>EBA publishes final Guidelines on the rate of conversion of debt to equity in bail-in</td>
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<td>APRIL</td>
<td>EBA publishes final Guidelines on the treatment of shareholders in bail-in or the write-down and conversion of capital instruments</td>
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<tr>
<td>APRIL</td>
<td>EBA publishes updated Risk Dashboard with data as of Q4 2016</td>
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<td>APRIL</td>
<td>ESAs consult on draft Guidelines on the measures payment service providers should take to detect missing or incomplete information on the payer or the payee, and the procedures they should put in place to manage a transfer of funds lacking the required information</td>
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<tr>
<td>APRIL</td>
<td>ESAs publish joint spring 2017 Report on risks and vulnerabilities in the European Union’s financial system</td>
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<tr>
<td>MAY</td>
<td>ESAs consult on draft joint RTS on the measures credit institutions and financial institutions shall take to mitigate the risk of money laundering and terrorist financing where a third country’s law does not permit the application of group-wide policies and procedures</td>
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<tr>
<td>MAY</td>
<td>EBA consults on draft Guidelines on security measures for operational and security risks under PSD2</td>
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<td>MAY</td>
<td>EBA consults on draft recommendations on outsourcing to cloud service providers under Article 16 of the EBA Regulation</td>
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<td>MAY</td>
<td>EBA consults on the scope of the draft Guidelines on connected clients under Article 4(1)(39) of the CRR</td>
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<td>MAY</td>
<td>EBA publishes amended ITS on benchmarking of internal approaches</td>
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<td>MAY</td>
<td>EBA publishes an Opinion on own funds in the context of the CRR review</td>
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<tr>
<td>MAY</td>
<td>EBA publishes final draft RTS setting out the Union standardised terminology for the most common services linked to a payment account, under Article 3(4) of the Payment Accounts Directive</td>
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<tr>
<td>MAY</td>
<td>EBA publishes final draft ITS on the standardised presentation format of the fee information document and its common symbol, under Article 4(6) of the Payment Accounts Directive</td>
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<tr>
<td>MAY</td>
<td>EBA publishes final draft ITS on the standardised presentation format of the statement of fees and its common symbol, under Article 5(4) of the Payment Accounts Directive</td>
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<tr>
<td>MAY</td>
<td>EBA publishes final Guidelines on credit institutions’ credit risk management practices and accounting for expected credit losses</td>
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<tr>
<td>MAY</td>
<td>EBA publishes final Guidelines on ICT risk assessment under the Supervisory Review and Evaluation Process (SREP)</td>
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<tr>
<td>MAY</td>
<td>EBA publishes final draft RTS on valuation for the purposes of resolution and on valuation to determine difference in treatment following resolution under the BRRD</td>
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<tr>
<td>MAY</td>
<td>EBA publishes Opinion on EU Commission’s consultation on the operation of the ESAs</td>
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<tr>
<td>MAY</td>
<td>EBA publishes Report on the monitoring of common equity tier 1 (CET1) instruments issued by EU institutions</td>
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<tr>
<td>MAY</td>
<td>EBA announces details of its 2017 EU-wide transparency exercise</td>
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</table>
**JUNE**

- **CP** EBA consults on draft RTS on the criteria for determining the circumstances in which the appointment of a central contact point pursuant to Article 29(4) of Directive (EU) 2015/2366 is appropriate and the functions of those central contact points.
- **NO** EBA acknowledges notification on the resolution action taken by the Single Resolution Board (SRB) and by Spain’s Fund for Orderly Bank Restructuring (FROB) in respect of Banco Popular Español.
- **O** EBA publishes 2018 EU-wide stress test methodology for discussion.
- **O** EBA publishes revised list of ITS validation rules.
- **O** EBA launches 2016 credit valuation adjustment (CVA) risk-monitoring exercise.
- **REP** EBA publishes 2017 consumer trends report.
- **RP** EBA publishes Discussion Paper on the treatment of structural foreign exchange (FX) under Article 352(2) of the CRR.
- **RTS** EBA publishes final draft RTS for determining proxy spread and limited smaller portfolios for credit valuation adjustment under Article 383(7) of the CRR.
- **REP** EBA publishes 2016 Annual Report.
- **DP** EBA publishes Opinion on the European Commission’s intention to partially endorse and amend the EBA’s final draft regulatory technical standards on strong customer authentication and common and secure communication under PSD2.
- **REP** EBA publishes Report on innovative uses of consumer data by financial institutions.
- **O** EBA responds to the European Commission’s public consultation on FinTech.
- **GL** ESAs publish joint Guidelines under Articles 17 and 18(4) of Directive (EU) 2015/849 on simplified and enhanced customer due diligence and the factors credit and financial institutions should consider when assessing the money laundering and terrorist financing risk associated with individual business relationships and occasional transactions.
- **RTS** ESAs publish final joint draft RTS on the criteria for determining the circumstances in which the appointment of a central contact point pursuant to Article 45(9) of Directive (EU) 2015/849 is appropriate and the functions of the central contact point.

**JULY**

- **REP** EBA publishes Report on asset encumbrance.
- **REP** EBA publishes Report on funding plans.
- **NO** EBA acknowledges the Commission’s adoption of amended supervisory reporting standards due to financial reporting (FINREP) IFRS 9.
- **GL** EBA publishes amended Decision confirming that the unsolicited credit assessments of certain external credit assessment institutions (ECAs) do not differ in quality from their solicited credit assessments (2016/C 266/05).
- **CP** EBA consults on draft Guidelines on uniform disclosures under the proposed draft Article 473a, paragraph 8, of the CRR as regards the transitional period for mitigating the impact on own funds of the introduction of IFRS 9.
- **CP** EBA consults on draft RTS setting technical requirements on development, operation and maintenance of the electronic central register and on access to the information contained therein, under Article 15(4) of PSD2.
- **CP** EBA consults on draft ITS on the details and structure of the information entered by competent authorities in their public registers and notified to the EBA under Article 15(5) of PSD2.
- **CP** EBA consults on the implementation of the methods for calculating contributions to deposit guarantee schemes.
- **O** EBA enhances transparency on deposit guarantee schemes across the EU.
- **O** EBA launches supplementary data collection to support the new prudential framework for investment firms.
- **O** EBA outlines roadmap to strengthen the monitoring of ECAs.
- **O** EBA publishes final Guidelines under PSD2 on the information to be provided for the authorisation of payment institutions and e-money institutions and for the registration of account information service providers.
- **O** EBA publishes final Guidelines on major incident reporting under PSD2.
- **GL** EBA publishes final Guidelines on the criteria on how to stipulate the minimum monetary amount of the professional indemnity insurance or other comparable guarantee under Article 5(4) of PSD2.
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<th>Event</th>
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<tbody>
<tr>
<td>RTS</td>
<td>EBA publishes final draft RTS under Article 8(2) of CRD IV on the information to be provided for the authorisation of credit institutions, the requirements applicable to shareholders and members with qualifying holdings and obstacles which may prevent the effective exercise of supervisory powers</td>
</tr>
<tr>
<td>RTS</td>
<td>EBA publishes final draft RTS under Article 8(3) of CRD IV on standard forms, templates and procedures for the provision of the information required for the authorisation of credit institutions</td>
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<tr>
<td>REP</td>
<td>EBA publishes Report on results from the second impact assessment of IFRS 9</td>
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<tr>
<td>DP</td>
<td>ESAs publish Opinion on Packaged Retail and Insurance-Based Investment Products with environmental or social objectives</td>
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<td>DP</td>
<td>ESAs consult on draft ITS amending Implementing Regulation (EU) 2016/1799 on the mapping of ECAIs’ credit assessments under Article 136(1) and (3) of the CRR</td>
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<tr>
<td>GC</td>
<td>ESAs’ Joint Board of Appeal publishes Decision on FinancialCraft Analytics appeal against ESMA registration decision</td>
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<td>AUGUST</td>
<td>EBA updates list of public sector entities for the calculation of capital requirements</td>
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<tr>
<td>CP</td>
<td>EBA consults on draft Guidelines on fraud reporting requirements under Article 96(6) of PSD2</td>
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<tr>
<td>DP</td>
<td>EBA publishes Opinion on measures in accordance with Article 458 of the CRR addressed to the Finnish Financial Supervisory Authority</td>
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<tr>
<td>DP</td>
<td>EBA publishes a Discussion Paper on its approach to FinTech</td>
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<td>O</td>
<td>EBA publishes updated list of public sector entities for the calculation of capital requirements</td>
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<tr>
<td>ITS</td>
<td>EBA updates data used for the identification of global systemically important institutions (G-SIIs)</td>
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<td>SEPTEMBER</td>
<td>EBA publishes Opinion in response to the European Commission’s call for advice on investment firms</td>
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<td>GL</td>
<td>EBA and ESMA publish final Guidelines on the assessment of the suitability of members of the management body and key function holders under Directive 2013/36/EU and Directive 2014/65/EU</td>
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<td>O</td>
<td>EBA and US agencies conclude Framework Cooperation Arrangement on Bank Resolution</td>
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<tr>
<td>CP</td>
<td>EBA publishes revised list of ITS validation rules</td>
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<tr>
<td>DP</td>
<td>EBA publishes a Discussion Paper on the significant risk transfer in securitisation</td>
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<tr>
<td>RTS</td>
<td>EBA publishes final draft ITS on procedures and templates for the identification and transmission of information by resolution authorities to the EBA, on minimum requirements for own funds and eligible liabilities under Article 45(17) of the BRRD</td>
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<tr>
<td>GC</td>
<td>EBA publishes final Guidelines on internal governance under CRD IV</td>
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<tr>
<td>ESAs publish joint final Guidelines under Article 25 of Regulation (EU) 2015/847 on the measures payment service providers should take to detect missing or incomplete information on the payer or the payee, and the procedures they should put in place to manage a transfer of funds lacking the required information</td>
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<tr>
<td>REP</td>
<td>EBA publishes CRD IV-CRR/Basel III monitoring exercise results based on data as of 31 December 2016</td>
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<tr>
<td>OCTOBER</td>
<td>EBA consults on draft Guidelines on the revised common procedures and methodologies for the SREP and supervisory stress testing</td>
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<td>O</td>
<td>EBA announces final timeline for the 2018 EU-wide stress test</td>
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<tr>
<td>CP</td>
<td>EBA consults on EBA consults on ITS on the provision of information for the purpose of resolution plans under Article 11(3) of the BRRD</td>
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<tr>
<td>DP</td>
<td>EBA consults on draft RTS on cooperation between competent authorities in the home and host Member States in the supervision of payment institutions operating on a cross-border basis under Article 29(6) of PSD2</td>
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EUROPEAN BANKING AUTHORITY

NOVEMBER

- EBA publishes Opinion on issues related to the departure of the United Kingdom from the European Union
- EBA provides overview of competent authorities' implementation and transposition of the CRD IV package
- EBA publishes final Guidelines on procedures for complaints of alleged infringements of PSD2
- EBA publishes work programme for 2018
- EBA publishes updated Risk Dashboard with data as of Q2 2017
- EBA publishes updated list of public sector entities for the calculation of capital requirements

DECEMBER

- EBA publishes Opinion on the use of the 180 days past due criterion
- EBA closes breach of Union law investigation against De Nederlandsche Bank (DNB) and will monitor transitional measures adopted to redress the case
- EBA consults on draft ITS amending Commission Implementing Regulation (EU) 2016/2070 with regard to benchmarking of internal models
- EBA consults on draft RTS specifying the requirements for originators, sponsors and original lenders relating to risk retention pursuant to Article 6(7) of Regulation EU 2017/2402 on simple, transparent and standardised (STS) securitisation
- EBA consults on draft RTS on the homogeneity of the underlying exposures in securitisation under Article 20(14) and Article 24(21) of Regulation EU 2017/2402 on STS securitisation
- EBA publishes final Recommendations on outsourcing to cloud service providers
- EBA publishes Opinion on the draft national measures that the Republic of Cyprus intends to adopt in accordance with Article 45B of the CRR
- EBA publishes revised list of ITS validation rules
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<th><strong>Figure 1:</strong> Overview of regulatory products delivered against the EBA Work Programme</th>
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<td><strong>Guidelines</strong></td>
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<td><strong>Implementing Technical Standards</strong></td>
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<td><strong>Training organised for Competent Authorities</strong></td>
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* Including cross-sectoral trainings.
Achievements in 2017

Playing a central role in the development and maintenance of the Single Rulebook for banking

Contributing to the regulatory review of the IRB Approach

Repairing internal models and enhancing their comparability across Europe

In 2017, the EBA continued its work on the enhancement of the comparability of capital requirements, as part of the broad regulatory review of the internal ratings based (IRB) approach that started in 2015. The use of internal rating systems is an important element to improve risk sensitivity when measuring capital requirements, encouraging institutions to improve their risk management practices. The main objectives of the EBA in this area are to ensure comparability of capital requirements, to restore the overall trust in internal models and to coordinate its regulatory review with other stakeholders, such as the European Central Bank (ECB) and the Basel Committee. The EBA made progress on the roadmap for the implementation of the regulatory review of internal models as outlined in the Report on the regulatory review of the IRB Approach published in February 2016. In November 2017, the EBA published its final Guidelines on probability of default (PD) estimation, loss given default (LGD) estimation and the treatment of defaulted exposures. This publication was accompanied by a comprehensive Report on IRB modelling practices, which presented the results of the survey carried out across European banks and provided an impact assessment of the Guidelines in terms of the scope of necessary changes in the rating systems.

The Guidelines provide clarification on the estimation of risk parameters under the IRB Approach, with a focus on PD and LGD parameters, as well as on selected aspects of the application of these risk parameters and on the regular reviews of the estimates. The clarifications focus on the main concepts and definitions underlying the calibration of risk parameters, as these are the basis for the calculation of capital requirements and, therefore, have to be identified in an objective manner. The Guidelines also clarify the principles for model development, allowing sufficient flexibility to ensure appropriate risk differentiation and to preserve the risk sensitivity of models.

In order to complete the regulatory review of the aspects related to estimation of risk parameters, in the first half of 2017 the EBA also consulted on the regulatory technical standards (RTS) on the nature, severity and duration of economic downturn. The final publications on economic downturn will include an update to the Guidelines on PD estimation, LGD es-

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<tr>
<td>Consultation Paper on the specification of the nature, severity and duration of an economic downturn</td>
<td>Consultation from 1 March to 29 May 2017</td>
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<tr>
<td>Guidelines on PD and LGD estimation</td>
<td>Final Guidelines published on 20 November 2017</td>
</tr>
<tr>
<td>Report on IRB modelling practices</td>
<td>Report published on 20 November 2017</td>
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</table>
timation and the treatment of defaulted exposures to clarify the aspects related to the estimation of downturn LGD. It is due to be published in 2018.

The proposed phase-in approach accounts for the operational burden related to the wide range of changes in the rating systems and supervisory approval processes resulting from the reviewed regulatory framework, which is considered to provide harmonised supervisory assessments of IRB models as well as harmonised key definitions and core methods underlying the IRB parameter estimations. This should ultimately lead to a reduction in unjustified variability of risk-weighted assets (RWAs) among IRB institutions in Europe and restore confidence in IRB parameter estimation and risk-sensitive capital requirements based on own estimations.

In line with the EBA’s roadmap on the regulatory review of the IRB Approach (see Table 3), the fourth and last phase focuses on the credit risk mitigation (CRM) framework. The initially planned scope of the work on CRM has been extended to include certain aspects of the use of CRM techniques under all approaches. The work in this area started in 2016 and continued in 2017 with the aim of publishing a report on the CRM framework in the first half of 2018. This report will provide an overview of the usage of the CRM framework as well as clarifications of selected requirements, which have been identified as unclear. Moreover, it will point out areas that require more clarification through legislative changes or that need to be improved.

The EBA has also been active in providing input at the Basel Committee on Banking Supervision (BCBS) table on the review of the credit risk framework and the proposed constraints on the use of internal model approaches. The focus here was on reducing variability of RWAs by limiting the scope of application of the IRB Approach. The EBA continued to manage and moderate its members’ discussion of core policy issues of the revised Basel standard and to achieve a coordinated and, therefore, more powerful stance at international level. The EBA’s regulatory approach is complementary to the top-down approach followed by Basel, which was finally finalised in 2017. While a prolonged period of uncertainty about the future of IRB models is still expected until the revised Basel framework is implemented in European legislation, the EBA delivered on the majority of the regulatory products included in its IRB review plan, which was designed in such a manner that the shortcomings identified in the current regulation could be overhauled as far and as quickly as possible within the given EBA mandates and the current legislation. The deliverables of the first two phases of the EBA’s regulatory review of the IRB Approach are expected to significantly contribute to increased trust in internal models by reducing the unjustified variability of their outcomes and ensuring comparability of risk estimates while at the same time preserving the risk sensitivity of capital requirements.

### Table 3: Progress on the regulatory review of the IRB Approach

<table>
<thead>
<tr>
<th>Prioritisation</th>
<th>Regulatory products</th>
<th>Current status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phase 1: Assessment methodology</td>
<td>RTS on IRB assessment methodology</td>
<td>Finalised ✓</td>
</tr>
<tr>
<td>Phase 2: Definition of default</td>
<td>RTS on materiality threshold&lt;br&gt;Guidelines on default of an obligor</td>
<td>Finalised ✓</td>
</tr>
<tr>
<td>Phase 3: Risk parameters</td>
<td>GL on PD estimation, LGD estimation and the treatment of defaulted exposures&lt;br&gt;RTS on economic downturn&lt;br&gt;GL on LGD downturn estimation</td>
<td>Finalised ✓&lt;br&gt;Finalisation stage, including second consultation</td>
</tr>
<tr>
<td>Phase 4: Credit risk mitigation</td>
<td>RTS on conditional guarantees&lt;br&gt;RTS on liquid assets&lt;br&gt;RTS on master netting agreements</td>
<td>Postponed – broader considerations on CRM framework necessary</td>
</tr>
<tr>
<td>New initiative:</td>
<td>Report on CRM under SA and F-IRB&lt;br&gt;GL on CRM under A-IRB</td>
<td>Finalised ✓&lt;br&gt;Development stage</td>
</tr>
</tbody>
</table>
Benchmarking of internal models

In 2017, the EBA conducted its regular annual benchmarking exercises, aimed at identifying outliers in the calculations of RWAs via internal models. This work is a fundamental supervisory tool to monitor material differences in banks’ outcomes. The comparison of risk parameters across European banks allows supervisors to identify possible sources of differences and, when they are not justified, it triggers the necessary policy actions to improve convergence and promote disclosure.

The EBA published four different reports on the consistency of RWAs in 2017. For the first time, the exercises included all EU institutions authorised to use internal approaches for the calculation of capital requirements. In March 2017, the EBA published two reports on residential mortgage, small and medium-sized enterprises (SMEs) and other corporate portfolios (collectively referred to as high default portfolios – HDP), and market risk. In November 2017, the EBA published two additional reports focusing on credit risk for large corporate, institutions and sovereign portfolios (collectively referred to as low default portfolios – LDP), and market risk.

The specifications of the annual benchmarking exercises are included in the implementing technical standards (ITS), which specify the benchmarking portfolios and reporting instructions to be applied. In December 2017, the EBA published its annual update to the ITS, defining the benchmarking portfolios for the 2018 benchmarking exercise. These updates did not introduce any changes to the policy or legal content of the technical standards, but eliminated inconsistencies and promoted the harmonisation of data submissions.

The overall results of the review on RWAs is a key input for the work that the EBA is conducting on the validation of internal models, which also contributes to the harmonisation of banks’ practices and enhances the overall consistency and comparability.

The EBA’s work on improving the consistency of RWAs

The results of the four reports, published in 2017, explored the primary drivers for inconsistencies in risk-weighted assets (RWAs) in banks’ internal models. The results confirmed some of the previous findings, described the overall variability and examined the key drivers that explain the observed dispersion.

For credit risk, the studies rely on two indicators: the risk weight and the global charge (GC), i.e. considering expected and unexpected losses. The high default portfolios (HDP) report, published in March 2017, showed that three drivers – confirming the results of previous exercises – explain more than 80% of the deviation in the GC levels across institutions. These factors are (i) the proportion of defaulted exposures in the portfolio, (ii) the country of the counterparty and (iii) the portfolio mix. The remaining variability could be described by differences in riskiness, i.e. idiosyncratic portfolio features, modelling assumptions and risk management practices applied by banks, as well as supervisory practices. Furthermore, a backtesting approach showed that, in general, the estimated values for PDs and LGDs are above the observed values for defaults and loss rates. Nevertheless, some banks systematically show observed values higher than estimates and require closer analysis. The low default portfolios (LDP) report, published in November 2017, also confirms the outcome of previous exercises, with 61% of the difference in variability explained by the same three drivers. Aspects of methodology and assumptions in internal models are pointed out as possible reasons for these effects.

The market risk report relies on the interquartile dispersion statistic (IQR) and coefficient of variation (CV)
Reforming risk-based metrics

In 2017, the EBA published two key discussion papers in the area of market risk, which are intended to lay the groundwork for a series of expected regulatory products related to the revisions of the counterparty credit risk and market risk frameworks.

On 22 June 2017, the EBA published a Discussion Paper on the treatment of structural foreign exchange (FX), seeking stakeholders’ feedback on current practices and interpretations of the structural FX provision. The application of that provision can have a significant effect on capital requirements and is currently subject to various interpretations that have led to differences in its application, both across EU Member States and across banks. The paper outlines issues related to the structural FX provision and assesses the potential inconsistencies in the articulation of FX requirements, both in the current Capital Requirements Regulation (CRR) as well as in the CRR 2 proposal for institutions applying the standardised and internal model approaches.

On 18 December 2017, the EBA published a Discussion Paper on the implementation in the EU of the revised market risk and counterparty credit risk frameworks. This paper is the first response of the EBA to the publication of the fundamental review of the trading book (FRTB) in January 2016 and the CRR 2 legislative proposal in November 2016. It will hopefully initiate a collaborative effort among regulators, supervisors and banks in identifying the main operational challenges and pave the way for a smooth implementation of the FRTB in the EU.

The assessments by competent authorities (CAs), based on supervisory benchmarks, showed some areas that require follow-up actions, in particular for those institutions whose internal models were flagged as outliers in these exercises.

ONGOING WORK

The EBA will be, in the EU, at the forefront of the implementation of the revised frameworks. Once the legislative proposal is adopted, the EBA, also taking into account the outcome of discussions taking place in the Basel Committee, will publish a report presenting a summary of the feedback received, as well as an updated roadmap, so that there will be clarity for all the parties involved on how to ensure a successful implementation of the FRTB in the EU.

to measure the observed variability. In the initial market valuation (IMV) outcome, interest rate portfolios show a lower variability than other asset classes due to more homogeneity across banks for modelling interest rate risk. The latter shows a more consistent result across banks for the IMV analysis, induced by more commonalities in the banks’ market standards assumptions and practices. As expected, the overall variability for value at risk (VaR) is lower than that observed for stressed VaR (sVaR), and, more sophisticated measures such as incremental risk charge (IRC) and all price risk (APR) show a much higher level of divergence. The key evidence is that modelling choices play an important role in explaining this variability, especially for the most complex risk measures.
profits and losses (P&Ls) used in the context of backtesting and P&L attribution, providing criteria for the exclusion or inclusion of certain types of valuation adjustments. It calls for views on the issues faced by institutions when identifying and valuing banking book positions subject to FX or commodity risk, as well as on concrete practical issues resulting from the inclusion of those positions within notional trading desks. The paper also questions, in the particular context of the EU, which specific criteria are relevant for currencies and currency pairs to be considered ‘most liquid’ and for equities to be considered small or large capitalisations. Last but not least, in the absence of further specifications from Basel on how the stress scenario risk charge should be computed for non-modellable risk factors (NMRFs), the discussion paper outlines/proposes a standardised methodology for the computation of the stress scenario risk charge, as well as a fall-back approach, which are intended to create, through more comparable capital figures, the conditions for an enhanced level playing field across banks in the EU.

In addition, the discussion paper also puts forward a roadmap of the future EBA work in this area, which includes a tentative prioritisation of expected regulatory products that is deemed essential for the implementation of the new frameworks. These products include deliverables related to SA-CCR and key regulatory products on the new FRTB Internal Model Approaches, which are essential for banks to start implementing their internal models.

Contributing to the establishment of the Capital Markets Union

The EBA has been at the forefront with many Capital Markets Union (CMU) initiatives and has established itself, over the years, as the leading regulatory body on securitisation and covered bonds in the EU.

The new EU securitisation legislation, which was based on the recommendations of the EBA report on securitisation from July 2015, came into force in January 2018 and is applicable as of 1 January 2019. The EBA received in total 28 regulatory mandates, including technical standards, guidelines, recommendations and reports, to be delivered in the next few years, which will ensure a leading role for the Authority in this area.

Furthermore, in response to the mandate in the CRR, on significant risk transfer for securitisation, the EBA published a discussion paper in September 2017 with proposals to strengthen the regulation and supervision framework of significant risk transfer and to improve regulatory certainty and the level playing field for institutions that transfer risk through securitisation.

Following the publication of the EBA's report on covered bonds and recommendations to create an EU directive on covered bonds in December 2016, the Commission announced, in June 2017, its intention to have a legislative proposal for an EU framework on covered bonds by March 2018 based on the EBA's work.

In October 2017, the EBA received a call for advice on the European Secured Notes (ESNs) to assess if a new asset class of bonds backed by SME loans or specific infrastructure/project finance loans could be created to further enhance the financing to the real economy.

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Contributing to the design of a new prudential regime for investment firms

In December 2017, the Commission submitted two legislative proposals to amend the current EU prudential rules for Markets in Financial Instruments Directive (MiFID) investment firms as part of the CMU reforms. The proposals are largely based on the comprehensive advice provided by the EBA in September 2017. In its Opinion and the accompanying Report, the EBA recommended the design and calibration of a new prudential framework for investment firms, which aims to introduce simpler, more proportionate and risk-sensitive prudential rules for investment firms.

Furthermore, the EBA recommended specific corporate governance rules and provided support on the application of remuneration policies for those firms.

The Opinion was a result of an extensive analysis on the impact of the proposed framework on various business models and a wide consultation with stakeholders. In particular, the Opinion was supported by two data collections, a public hearing and several technical roundtables to gather stakeholders’ feedback.

The Opinion sets out a series of recommendations related to all aspects of the prudential requirements, including capital and liquidity.

The global financial crisis stigmatised the securitisation technique, showing that unregulated and opaque financial engineering could result in very damaging originate-to-distribute practices, spreading risk widely across financial markets. Back in 2014, the European co-legislators asked the EBA to identify high-quality securitisations and advise on the appropriate capital charges for those instruments. The mandate landed in the Capital Markets Union team, where I have worked since I joined the regulation department. To that end, I have worked on several EBA consultations of stakeholders and reports that allowed us to identify the features of simplicity, transparency and standardisation that securitisation instruments (STS securitisation) should have in order to perform better and serve the genuine purpose of supporting banks to raise funding and manage risks.

Eurosystem’s data allowed us to calibrate risk weights based on the historical performance of the identified higher quality instruments. While developing this work, I represented the EBA in the task force of the Basel Committee on Banking Supervision, set up to address similar issues at the global level, where it was my job to explain the rationale and merits of the approaches we were taking in Europe.

2017 was a turning point, as the European co-legislators finalised and approved a legislative package on STS securitisation based on our work, and the BCBS is close to finalising its package of standards, broadly aligned with the new European regime. In 2018, the team will start working on guidelines and technical standards aimed at facilitating the implementation of the STS securitisation criteria as well as the use of internal models for the calculation of securitisation capital charges. I genuinely hope that, when the new regime becomes applicable in 2019, all the regulatory conditions we have worked for will be there for the securitisation market to work smoothly and safely.
requirements, consolidated supervision, concentration risk, reporting, additional firm-specific requirements, corporate governance and remuneration. Moreover, specific recommendations are included on the suitability of the proposed framework for commodity derivatives firms and the need for further analysis on the role of macroprudential tools for the risks stemming from investment firms’ activities.

The EBA Opinion included three innovative recommendations that were all included in the European Commission legislative proposals. Firstly, it recommended the introduction of a new prudential categorisation for investment firms that distinguishes between three classes: (i) Class 1 firms, which should be subject to the full CRR/CRD; (ii) Class 2 firms, which should be subject to prudential requirements that are simpler and tailored to the business and risks of investment firms; and (iii) Class 3 firms, which should be subject to a very simple prudential regime.

Secondly, the proposed framework recommended the calculation of capital requirements based on easily observable factors (K-factors) that capture the risks posed by an investment firm to customers, markets or the firm itself. The proposed formula is able to capture all the risks arising from the provision of MiFID services and activities that investment firms undertake, and it can cater for various business models.

The EBA recommended that MiFID investment firms trading in their own name or underwriting on a firm committed basis should be subject to the same risk-based metrics proposed in the upcoming CRR 2, but including substantial simplifications in terms of reporting, credit valuation adjustments (CVAs) and liquidity requirements.

Furthermore, in the EBA Opinion on Brexit (see Section ‘EBA Brexit preparation’) the EBA recommended that the largest systemically important investment firms established within the Banking Union should be supervised by the SSM to ensure equivalent prudential supervision to credit institutions.

Assessing the impact of IFRS 9 on banks across the EU

In July 2017, the EBA published its second impact assessment of International Financial Reporting Standards (IFRS) 9, which gathered results from approximately 50 banks in the European Economic Area (EEA) and included qualitative and quantitative observations. This report follows the first impact assessment, released in November 2016, and is part of the EBA’s wider work on IFRS 9. The report provided information on how banks were progressing in the implementation of IFRS 9 and the estimated impact that it may have on capital. According to this report, provisions were estimated to increase by an average of 13% compared with the current level of provisions under International Accounting Standard (IAS) 39, and common equity tier 1 (CET1) ratios were expected to decrease on average by up to 45 basis points.

ONGOING WORK

The EBA will continue working over the next few years to assess the impact of IFRS 9 implementation on banks, in particular of the measurement of expected credit losses and how it affects the comparability among banks. This will also encompass the monitoring of the application and the processing of questions arising with respect to Regulation (EU) 2017/2395 regarding transitional arrangements for mitigating the impact of IFRS 9 on own funds.
Figure 2: The EBA’s work on investment firms

**EUROPEAN COMMISSION’S CALLS FOR ADVICE (CfAs)**

**FIRST CfA**
December 2014

on the suitability of certain aspects of the prudential regime for investment firms

**SECOND CfA**
13 June 2016

To provide detailed technical advice on the first two recommendations.

On the First Recommendation, the Commission asked the EBA to develop, for each of the three proposed classes of firms, the exact criteria, indicators and thresholds for determining which firm falls in each class.

On the Second Recommendation, the Commission asked the EBA to design a new prudential regime for investment firms, which is specifically tailored to the needs of investment firms’ different business models and inherent risks.

**EBA’S RECOMMENDATIONS**

**FIRST EBA OPINION**
14 December 2015

Broad conclusion:
the current regime is not fit for purpose for most of the investment firms.

Three general recommendations aiming to provide a more proportionate and less complex prudential regime for investment firms, based on appropriate risk sensitivity parameters:

First recommendation:
The EBA suggested that there should be three classes for investment firms:

▶ Class 1: systemic, ‘bank-like’ firms which should remain within the scope of the current CRR.
▶ Class 2: a middle category for the majority of firms. These will not be systemic but do pose risks and should be subject to a less complex prudential regime calibrated to address specific risks.
▶ Class 3: small firms which are not interconnected, which should be subject to a very simple regime to cater for wind-down, if appropriate.

Second recommendation:
The EBA suggested that a specific prudential regime should be designed for those investment firms for which the CRD and CRR are not applicable.

Third recommendation:
The EBA points out that the exemptions provided in Articles 493 and 498 of the CRR need to be extended until 2020 to avoid any unintended burdens on certain firms that fall under the Markets in Financial Instruments Directive (MiFID).

**SECOND EBA OPINION**
19 October 2016

The EBA recommended that only those investment firms that are currently identified as Global Systemically Important Institutions (GSIIs) and Other Systemically Important Institutions (OSIIs) remain subject to the full CRD/CRR regime.

Class 1 firms should be made up of systemic, interconnected and bank-like investment firms to which the full CRD/CRR requirements should be applied, in particular because these firms are exposed to credit risk, counterparty credit risk and market risk for positions taken on own account be it for the purpose of external clients or not.

The following criteria should be considered relevant to identify Class 1 firms:

a) systemic importance;
b) interconnectedness with the financial system;
c) complexity;
d) bank-like activities.

The EBA launched a consultation on 4 November 2017 to develop a single, harmonised set of requirements that are reasonably simple, proportionate, and more relevant to the nature of investment firms.

On 15 July 2016, 20 December 2016 and 6 July 2017 the EBA launched three data collections to support the European Commission in the calibration of the new prudential regime for investment firms, including one dedicated to commodity derivatives dealers.
Enhancing the framework for prudential consolidation

In November 2017, the EBA launched a 3-month public consultation on its draft RTS specifying the different methods of prudential consolidation. In addition, the draft RTS sought feedback on the definitions of ‘financial institution’ and ‘ancillary services undertaking’ and the treatment of securitisation special purpose entities for accounting and prudential purposes.

Assessing and monitoring the regulatory perimeter and enhancing consistency in the authorisation process

In 2017, the EBA published a Report including the EBA’s findings in relation to a study of the prudential treatment of ‘other financial intermediaries’ (OFIs) under national law and matters relating to the scope of application of the CRD IV/CRR. This work informed an EBA Opinion, addressed to the European Parliament, the Council and the Commission, setting out the EBA’s views on the scope of application of the CRD IV/CRR, including the interpretation of the terms ‘financial institution’ and ‘ancillary services undertaking’, noting that both terms are prone to inconsistent interpretation across the EU and could benefit from clarification. The Report and Opinion are relevant to the ongoing negotiations of the CRD IV/CRR proposals and the EBA’s draft RTS on methods of consolidation. The EBA did not recommend any legislative changes regarding the individual prudential treatment of OFIs but will continue to monitor the activities and regulatory treatment of these entities, including in conjunction with the European Systemic Risk Board (ESRB) as part of the regular shadow banking monitoring work.

In 2017, the EBA also published its final RTS and ITS on the information to be presented in applications for authorisation as credit institutions. These technical standards provide useful clarity for potential applicants by prescribing a common set of information to be presented in applications and represent an important step towards promoting a more consistent, effective and rigorous approach to the assessment of applications for banking licences.

Finalising the resolution Single Rulebook

RTS on valuation

The Bank Recovery and Resolution Directive (BRRD), which was adopted in 2014, put in place a framework for dealing with failing banks in the EU. The EBA was given various mandates to issue technical standards and guidelines to specify in more detail how resolution should work. The EBA has been working on this mandate since 2014, working to improve the Single Rulebook for resolution. While this work is nearly complete, and attention is turning to implementation of these rules, there were still a number of legislative products that had to be delivered in 2017.

In May 2017, the EBA submitted to the European Commission the RTS on valuation before resolution and the RTS on valuation after resolution that complete the resolution framework. The RTS on valuation before resolution lay down the criteria for the methodology to be applied by the valuer to assess (i) if the conditions for resolution are met, (ii) the economic value of assets, liabilities and equity for pur-
Valuation is crucial for resolution. Not only does any resolution decision need to be informed by a previously conducted valuation, but also the execution of the resolution action has to be followed by a subsequent valuation. The aim of a subsequent valuation is to assess if the treatment received by shareholders and creditors in resolution leaves them worse off than they would have been had the bank been subject to normal insolvency proceedings, and if the right of property has ultimately been breached. Valuation interacts with other resolution pillars such as countering moral hazard, which, in valuation terms, requires that losses are fully recognised, are borne by shareholders first, values are not artificially inflated and no reliance is placed on state aid.

Developing the EBA draft RTS on valuation for purposes of resolution and after resolution, which we submitted to the European Commission in May 2017, has been a delicate exercise in balancing those principles. At the same time, we had to be careful not to impinge on the independence of valuers. My expertise on the new resolution regime, which I have been working on for several years, has been useful to bridge the gap between resolution and valuation and to translate resolution requirements into valuation concepts. The RTS are the first act of harmonisation of the criteria for conducting a valuation across the EU and represent a major step forward for resolution implementation. We are aware that valuation in practice presents many challenges requiring preparedness enhancement as regards data collection and availability within the banks’ management information systems. We are committed to continuing work on valuation for purposes of resolution to facilitate the meeting of such challenges.
Promoting convergence of supervisory practices and ensuring their consistent implementation across the EU

Ensuring the efficient functioning of colleges of supervisors

Supervisory colleges are the fora for planning and coordinating supervisory activities, sharing important information about cross-border institutions, conducting the supervisory risk and liquidity risk assessment and reaching joint decisions on institution-specific requirements. Based on its founding Regulation, the EBA has a leading role in ensuring the consistent and coherent functioning of supervisory colleges across the EU and promoting the convergence of supervisory practices, including the sharing of good practices. To deliver on this mandate, the EBA monitors supervisory colleges on an ongoing basis.

The EBA establishes an action plan for supervisory colleges on a yearly basis. It provides competent authorities with a set of objectives and deliverables in line with the Level 1 and Level 2 provisions. It also sets out the EBA’s approach to college monitoring, including the activities to be undertaken by the EBA staff in supporting and monitoring colleges in line with the statutory mandate.

Among the core element of the Colleges Action Plan are the key topics for supervisory attention for the upcoming year, which are identified based on inputs from the EBA’s work on risks and vulnerabilities in the EU banking sector as well as from regulatory developments with cross-border implications. Colleges in general reflected these topics in their interactions in 2017.

In addition to the ongoing monitoring of colleges, the structured assessment of closely monitored colleges was completed again in 2017. The objective of the assessment is to provide detailed feedback to consolidating and host supervisors about the performance of the college they participate in, by acknowledging achievements and identifying areas for further improvement. It also informs BoS members about the performance of individual colleges under their supervisory responsibility. The key conclusions from this exercise as well as from the EBA’s assessment of the colleges’ activities against the EBA 2017 Colleges Action Plan and the relevant Level 1 and Level 2 regulation are summarised in the Report on the functioning of supervisory colleges in 2017.

Overall, significant improvements have been achieved over the last few years in college interactions, responsiveness and the quality, coverage and reasoning of the joint decision documents. Further efforts are, however, expected from both home and host supervisors to enhance the joint decision process and ensure the completeness of the Supervisory Review and Evaluation Process (SREP) assessments.

Figure 3: Key topics for supervisory attention for 2017
The vast majority of closely monitored colleges maintained frequent interactions over the course of 2017, which typically included quarterly engagement in a multilateral setting. Most colleges maintained active cooperation with the EBA staff too and were responsive to comments and recommendations.

All closely monitored colleges dedicated sufficient time to exchanging supervisory views on the group risk assessments. While the risk assessments differed in terms of granularity across colleges, all were a good summary of the supervisory evaluation. Nevertheless, there were no improvements concerning the timely distribution of mandatory annexes in some of the closely monitored colleges, as required by Regulation 710/2014, covering the risk-by-risk breakdown of capital as well as liquidity measures.

Considerable improvements were identified in the quality of both the capital and liquidity joint decisions, which were well reasoned and included clear references to the conclusions of the SREP. While in most cases the draft joint decision documents were distributed well before the college discussions, and, unlike last year, they included preliminary quantitative and qualitative requirements, some colleges still did not share the documents on time.

In around half of the colleges, members were unable to reach joint decisions on the assessment of group recovery plans, mainly because of requests for individual recovery plans in addition to the group recovery plans, resulting in either partial joint decisions or unilateral decisions. In this context, not all the available tools for reaching joint decisions have been used by the relevant authorities, in particular the option to resolve disagreements by mediation.

The EBA observed improvements in the colleges followed on a thematic and selected basis as well, where generally good supervisory cooperation among college members has been observed or reported.
Enhancing supervisory methodologies and policies related to SREP

Pillar 2 Roadmap (IRRBB, SREP Guidelines and Stress Test Guidelines)

In April 2017, the EBA issued its Pillar 2 Roadmap with the objective of outlining its plans to update the common European framework for the SREP in 2017-2018. While the comprehensive common EU SREP framework has been well established since 2014, a number of updates were deemed necessary to further reinforce the framework. This is mainly in the light of the recent developments in the EU and international fora, as well as based on the EBA’s findings from the ongoing monitoring and assessment of convergence of supervisory practices.

The Roadmap explains the multi-stage approach the EBA has chosen to update the EU SREP framework in 2017-2018 and beyond, and recaps the ongoing policy initiatives on Pillar 2 topics that will need to be reflected in the revised EBA guidelines. In particular, the Roadmap explains the approach that the EBA is planning to take in relation to:

a) the update of the EBA SREP Guidelines;

b) the update of the EBA Guidelines on technical aspects of the management of interest rate risk arising from non-trading activities in the context of the supervisory review process [Interest Rate Risk in the Banking Book or IRRBB Guidelines]; and

c) the finalisation of the draft Guidelines on stress testing and supervisory stress testing [Stress Testing Guidelines] after the public consultation.

Update of the SREP Guidelines

The revisions of the SREP Guidelines reflect the policy initiatives related to Pillar 2/SREP as well as the EBA’s experience of the implementation of the SREP Guidelines, which include, among other aspects, the following:

- the introduction of Pillar 2 capital guidance (P2G), a supervisory tool aiming to address supervisory concerns revealed by supervisory stress testing;

- the integration of supervisory stress testing requirements and supervisory assessment of banks’ stress testing;

- clarification of certain aspects of the scoring;

- further details on the articulation of total SREP capital requirement (TSCR) and overall capital requirement (OCR).

Stress Test Guidelines

The Guidelines on institutions’ stress testing, which will replace the Committee of European Banking Supervisors (CEBS) Guidelines published in 2010, aim to strengthen the convergence of practices followed by institutions for stress testing across the EU. These guidelines incorporate recent developments and lessons learned during previous stress test exercises, considering best practices and additional individual risk areas. They also incorporate a well-defined taxonomy of stress testing. The draft guidelines focus on setting requirements for institutions, highlighting the importance of data infrastructure, the link between solvency stress tests and liquidity stress tests, proportionality issues, the use of a reverse stress testing process and the inclusion of additional individual risk areas such as FX lending risk, conduct-related risk and associated litigation costs.

ONGOING WORK

Following the 2017 revision, the EBA will continue to keep the SREP Guidelines in line with developments and will monitor their practical implementation. Some additional revisions may be needed, depending on the outcomes of the revisions of the Pillar 2 framework in the CRD.
Consultation Paper on Guidelines on the management and measurement of IRRBB

Interest rate risk in the banking book (IRRBB) is an important financial risk for credit institutions, which has traditionally been considered under the SREP. The draft Guidelines on the management and measurement of IRRBB, revising the Guidelines that were published in 2015, form the first step of the implementation at European level of the updated IRRBB Standards published by the BCBS in 2016.

In the revised draft Guidelines, the EBA communicates supervisory expectations regarding the management of IRRBB by institutions. The EBA notably clarifies the IRRBB internal governance requirements, and updates the requirements for the supervisory outlier test, including the parameters and assumptions used for such tests to increase the comparability of results among institutions. In line with the BCBS Standards and in view of the current market environment, requirements have been included for institutions to consider negative interest rate scenarios in low interest rate environments.

Final Guidelines on the supervision of branches

These final Guidelines aim to facilitate cooperation and coordination between the competent authorities involved in the prudential supervision of significant branches of EU institutions established in another Member State. In particular, these Guidelines will ensure cooperation and coordination in supervising the largest and most systemically important branches, the so-called ‘significant-plus’ branches, which are identified through a common assessment by home and host competent authorities considering the relevance of the branch for the group or for the financial stability of the host Member State. Furthermore, the final Guidelines outline a coordinated approach to their supervision by proposing a set of principles with which competent authorities should comply when performing risk assessments. These include exchange of supervisory intelligence and information, planning of supervisory activities, on-site checks and inspections, application of supervisory and precautionary measures, and allocation of tasks between authorities.

In view of the growing importance and increasing complexity of information and communication technology (ICT) risk within the banking industry, the EBA has devoted significant attention to this topic. The EBA aims to provide tools for Information technology (IT) supervisors and generalist supervisors and to form a link between the in-depth ICT risk assessment and the overall assessment of banks. This requires us to ensure that the language and terminology we use is both technically correct and accessible for non-IT specialists.

The work on ICT risk in the banking industry is particularly interesting because of the constant evolution of the technologies and their applications for the financial sector. We strive to find the right balance between allowing banks to leverage the benefits of using the technology and at the same time ensuring that any related risks are adequately identified and managed. We also have to deal with a number of stakeholders that can have different, and at times, competing objectives. This was, for example, the case in the development of the guidance for the use of cloud services by financial institutions.

In 2018, we will also develop ICT risk assessment guidelines for institutions, and guidance on cyber security addressed to competent authorities. These will form the next milestones in this fascinating work.

ICT RISK SUPERVISION AND CLOUD COMPUTING

Lot Anné
BANK EXPERT
Recommendation on outsourcing to cloud-service providers

The EBA published Recommendations on the use of cloud service providers by credit institutions and investment firms in December 2017. This work was triggered by the growing importance of cloud services as drivers of innovation and the increasing interest in the use of cloud outsourcing solutions within the banking industry. The Recommendations clarify and harmonise the EU-wide supervisory expectations for institutions adopting cloud computing by allowing them to leverage the benefits of using cloud services, while ensuring that any related risks are adequately identified and managed. In particular, the Recommendations address five key areas: (i) the security of data and systems, (ii) the location of data and data processing, (iii) access and audit rights, (iv) chain outsourcing and (v) contingency plans and exit strategies. A workshop was organised in December 2017 that brought together industry specialists and competent authorities to exchange experiences on cloud adoption by EU credit institutions and the implementation of the Recommendations. These Recommendations will be integrated in the revised Guidelines on outsourcing, which will be published for consultation in mid-2019.

Final Guidelines on ICT risk assessment

The growing importance and increasing complexity of information and communication technology (ICT) risk within the banking industry and in individual institutions led the EBA to develop its own-initiative guidelines addressed to competent authorities to promote common procedures and methodologies for the assessment of ICT risk. These guidelines, which complement the SREP guidelines, cover (i) the context and scope of the assessment; (ii) requirements for ICT risk management by the senior management and the management body, as well as requirements for the supervisory assessment of an institution’s ICT strategy; and (iii) the assessment of the institution’s ICT risk exposures and the effectiveness of controls. The final Guidelines were published in May 2017. A workshop was organised in December 2017 aimed at providing competent authorities with practical guidance on the implementation of the ICT risk assessment Guidelines.

Figure 6: Outline of the recommendations on cloud outsourcing
Assessing convergence of supervisory practices

Convergence Report

The CRD includes a specific mandate for the EBA to promote and monitor convergence of supervisory practices under the SREP. Therefore, the EBA published its third annual Report on convergence of supervisory practices in November 2017. The EBA noted a good degree of progress made by competent authorities in the implementation of the SREP Guidelines as well as in taking forward individual recommendations and observations provided by the EBA during the 2016 bilateral convergence visits. The EBA expects further significant progress in supervisory convergence following the implementation of the revised SREP framework, in accordance with the EBA Pillar 2 Roadmap and following the revision of the elements of the Pillar 2 framework in the CRR/CRD.

Challenges remain, however, primarily in the areas of methodologies for assessing capital adequacy and determining institution-specific additional own funds requirements. This is illustrated by the different approaches in the use of internal capital adequacy assessment process (ICAAP), the disparity between risk taxonomies, the differences in the transparency of setting Pillar 2 requirement (P2R), and the use of P2R for macroprudential purposes. These different approaches lead to differences in the articulation of P2R and its communication to supervised institutions.

In 2017, the EBA continued to enhance its convergence toolkit by further extending bilateral visits to competent authorities. These visits allow constructive dialogue on the practical implementation of the EBA regulatory products and provide feedback to the EBA policy development process. In 2017, the EBA staff visited 11 competent authorities (three Single Supervisory Mechanism [SSM] and eight non-SSM authorities), focusing on business model analysis and, in particular, the changes to the business models and strategies related to financial innovation and financial technology (FinTech). These interviews were very useful and mutually beneficial experiences for both the EBA staff and the staff of the competent authorities.

Monitoring the implementation of the recovery planning framework

Benchmarking report of recovery plan options

A comparative report on the recovery plan options was published in March 2017, based on the analysis of 23 European cross-border banking groups with parent institutions located in 12 different EU countries. This was the fourth thematic analysis performed by the EBA on recovery planning, following similar peer-group studies published in previous years on (i) core business lines and critical functions, (ii) the approach taken in developing scenarios and (iii) governance arrangements and recovery indicators. The 2017 comparative report focused on (i) an overview of the description of recovery options included in the recovery plans, (ii) financial and operational impact assessments and (iii) an assessment of the credibility and feasibility of recovery options. The aim of the report was to support the work of both competent authorities and institutions by providing a comprehensive review of practices applied.

In general, all recovery plans in the sample provided a good overview of recovery options. Nevertheless, the analysis highlighted some areas where challenges still remain.

Coverage and integration of material legal entities seemed to be also a challenging task across the majority of recovery plans.

Figure 7: Recovery options – areas for improvement

INTERACTION OF OPTIONS WITH GOVERNANCE AND SCENARIOS

THE ANALYSIS OF FINANCIAL AND OPERATION IMPACT OF OPTIONS

THE ASSESSMENT OF CREDIBILITY AND FEASIBILITY OF OPTIONS
Recommendation on the coverage of entities in group recovery plans

Under the BRRD, a recovery plan must be developed for a group as a whole and it should identify recovery measures to be implemented at the level of the parent company and of each individual subsidiary. However, recent experience has shown that the group recovery plans have often been prepared only from the perspective of a parent institution, with very little emphasis given to other legal entities in the group. The lack of information on recovery arrangements at the subsidiary level then created an issue for host authorities in terms of their knowledge and understanding of recovery arrangements.

Against this backdrop, the EBA worked intensively to draft a Recommendation, published in its final version in November 2017, aiming to address the crucial point of which entities should be covered in a group recovery plan, and the degree of detail that supervisors should expect in different cases. In particular, the Recommendation acknowledges that the coverage of all entities needs to be proportionate, clarifying that not all entities may require the same level of detailed commentary. Finally, the Recommendation encourages supervisors to reach a joint decision for a comprehensive group recovery plan, covering subsidiaries and relevant branches, and to limit requests for the submission of individual ones due to insufficient coverage of individual entities.

Update of the Single Supervisory Handbook on the supervisory assessment of recovery plans

Back in 2014, EBA staff and experts from competent authorities developed a Single Supervisory Handbook (SSH) Module on the supervisory assessment of recovery plans. It was intended to serve as an operational tool for supervisors and to promote best practices in the assessment of recovery plans. In 2015-2017, the SSH was widely used for the assessment of and joint decisions on recovery plans and it greatly helped to achieve a common and consistent approach among EU supervisors. However, during the last three years, the experience gained in supervisory colleges and through comparative reports that focused on various sections of recovery plans has shown the need to provide further guidance to supervisors. Therefore, the EBA staff with the support of national experts from competent authorities worked on a thorough update of this module of the SSH. The revision covered, in particular, the analysis of critical functions and core business lines, the assessment of the recovery indicators framework, the assessment of deficiencies and the identification of best practices, such as dry run exercises and operational playbooks.

RTS on the criteria for simplified obligations

In 2017, the EBA finalised the draft RTS to further specify the criteria for granting simplified obligations pursuant to Article 4(6) of the BRRD. The draft RTS were developed taking into account experience gained in the application of the EBA guidelines issued on the same topic in 2015(1), which was presented in the EBA report on the application of simplified obligations and waivers for recovery and resolution planning.

The draft RTS introduced a common two-stage eligibility assessment methodology for competent and resolution authorities. Firstly, institutions should be assessed against the quantitative criteria, based on a set of quantitative indicators. Secondly, institutions which pass the quantitative stage should be subject to a qualitative assessment. For credit institutions, the stage 1 quantitative assessment is fully aligned with the methodology used for identifying other systemically important institutions (O-SIs).[2] The draft RTS promote convergence of practices among the competent and resolution authorities by creating a common framework for assessing institutions’ eligibility for simplified obligations. They are also intended to facilitate cooperation among the authorities in conducting these assessments, including on cross-border groups.

Report on the application of simplified obligations and waivers for recovery and resolution planning

In December 2017, the EBA published a report on the application of simplified obligations and waivers in recovery and resolution planning. It was observed that by end of the reporting period (from January 2015 to 30 April 2017) around half of the competent and resolution authorities had not granted simplified obligations or waivers to institutions under their jurisdiction. The analysis also showed a wide variety of practices applied by competent or resolution authorities in assessing eligibility for simplified obligations. While it is expected that some of the divergences will decrease after the entry into force of the EBA’s RTS on simplified obligations, which will introduce more harmonised rules on eligibility assessment, some of these differences are expected to remain in the future. The BRRD leaves flexibility to competent and resolution authorities in defining reduced requirements and there is no other EU-wide harmonised framework in this area. The EBA will continue to monitor developments in the application of simplified obligations and waivers under the BRRD. The report was submitted to the European Parliament, the Council and the Commission.

Assessing third countries’ equivalence

Ongoing work on the equivalence of the confidentiality provision and of the regulatory and supervisory framework

According to Article 116[6] of the CRD, third-country supervisory authorities may participate in EEA supervisory colleges if the confidentiality regime of these countries is equivalent to the requirements laid down in the CRD. In order to facilitate the consistent participation of third-country supervisory authorities in supervisory colleges, improve cross-border cooperation and foster consistency in the application of the Union law among the colleges of supervisors, the EBA continued to assess the equivalence of the professional secrecy and confidentiality regimes of a number of non-EU supervisory authorities.

Moreover, the EBA responded to the Commission’s request for technical advice on the equivalence of the regulatory and supervisory regimes in specific third countries. The jurisdictions to be assessed were identified and prioritised in close cooperation with the Commission, and the EBA started the relevant preparatory work with its focus on the CRR framework.

[2] EBA Guidelines on the criteria to determine the conditions of application of Article 131(3) of Directive 2013/36/EU (CRD) in relation to the assessment of other systemically important institutions (O-SIs) [EBA/GL/2014/10].
EBA training programmes and workshops

As one of the EBA’s main tools for promoting supervisory convergence and contributing to a common supervisory culture, EBA training programmes offer speakers from all over the EU, and the possibility to interact and share perspectives.

Table 4: Training programmes organised by the EBA in 2017

<table>
<thead>
<tr>
<th>Title</th>
<th>Date</th>
<th>Host</th>
<th>Attendees</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBA workshop on EBA Guidelines on deposit guarantee scheme (DGS) stress tests</td>
<td>21 February 2017</td>
<td>EBA, London</td>
<td>64</td>
</tr>
<tr>
<td>Risk-based anti-money laundering/countering the financing of terrorism (AML/CFT) supervision</td>
<td>3 March 2017</td>
<td>EBA, London</td>
<td>76</td>
</tr>
<tr>
<td>The role of mediation in colleges</td>
<td>22 March 2017</td>
<td>EBA, London</td>
<td>12</td>
</tr>
<tr>
<td>Online training: SREP process and methodology for assessment of risks</td>
<td>12-19 May 2017</td>
<td>Online</td>
<td>110</td>
</tr>
<tr>
<td>Supervisory colleges and joint decisions</td>
<td>6-7 June 2017</td>
<td>EBA, London</td>
<td>28</td>
</tr>
<tr>
<td>Online training on recovery planning</td>
<td>6-16 June 2017</td>
<td>Online</td>
<td>36</td>
</tr>
<tr>
<td>Supervisory reporting</td>
<td>13-14 June 2017</td>
<td>EBA, London</td>
<td>73</td>
</tr>
<tr>
<td>Working with ESAs (organised by ESMA)</td>
<td>23 June 2017</td>
<td>Paris, France</td>
<td>34</td>
</tr>
<tr>
<td>Resolution plans and resolvability assessment: current practices and challenges</td>
<td>29-30 June 2017</td>
<td>EBA, London</td>
<td>100</td>
</tr>
<tr>
<td>Operational risk – a regulatory and supervisory update</td>
<td>23 November 2017</td>
<td>Vilnius, Lithuania</td>
<td>41</td>
</tr>
<tr>
<td>Practical application of and methodological aspects of business model analysis (BMA)</td>
<td>4-5 December 2017</td>
<td>EBA, London</td>
<td>64</td>
</tr>
<tr>
<td>IRB Approach III – assessment of LGD models and models for defaulted exposures</td>
<td>6-7 December 2017</td>
<td>EBA, London</td>
<td>77</td>
</tr>
<tr>
<td>IT risk on supervision and cloud outsourcing</td>
<td>18-19 December 2017</td>
<td>EBA, London</td>
<td>76</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
<td><strong>985</strong></td>
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</tbody>
</table>
Internal and external MREL training

In order to facilitate the adoption of minimum requirement for own funds and eligible liabilities (MREL) decisions for European banks, in 2017 the EBA offered training on the main legal and technical aspects of MREL to resolution authorities, supervisory authorities, deposit guarantee schemes (DGSs) and other relevant EU authorities. Going forward, the EBA will strengthen its training capabilities by relying on online training tools.

Policy research workshop

In November 2017, the EBA organised its sixth policy research workshop, on the topic ‘The future role of quantitative models in financial regulation’. The workshop brought together economists and researchers from supervisory authorities and central banks, as well as leading academics, to discuss how the financial sector is evolving in the use of quantitative modelling and the challenges we can expect in the future for both institutions and their regulators.
Developing resolution policies and promoting common approaches for the resolution of failing financial institutions

Facilitating resolution planning and benchmarking

College attendance

Although 2017 was the second year of fully functioning resolution colleges, the level of activity was lower than the previous year. The reduction was primarily attributable to a number of planned colleges being deferred to the first months of 2018. This was done in order to provide sufficient time for recently determined policy to be incorporated into joint decisions on MREL.

EBA representatives attended six resolution colleges focused on the 2017 decision-making cycle, as well as two crisis management groups for globally systemically important banks. Where relevant, direct feedback was provided to the group-level resolution authority (GLRA) on how the college process could be improved.

In addition, and supporting the college process, the EBA held bilateral discussions with five GLRAs covering a broad range of resolution related issues. Topics covered included experience in colleges from both home and host perspectives, the expectations in terms of rolling out key resolution policies, assurance mechanisms used to validate the information supporting plans and tackling substantive impediments to resolvability.

Bilateral engagement with resolution authorities

In 2017, the EBA started bilateral meetings with various national resolution authorities with the objectives of (i) monitoring their resolution planning status and outlook and (ii) providing tailored feedback to them based on the EBA’s observations of the functioning of resolution colleges established by the resolution authority. The bilateral engagement proved to be beneficial in providing a platform to exchange views about the challenges encountered in the development of resolution planning and to discuss how to address them. In addition, resolution authorities appreciated the opportunity to communicate directly with EBA staff to clarify specific elements of regulatory products and to become aware of emerging best practices.

Colleges manual

To support and enhance its work in resolution colleges, in 2017, the EBA developed a manual to guide staff through all the stages of the work in this area. It covers the selection of colleges, preparation for a meeting, active participation, feedback to the GLRA and documenting/recording findings.

In setting out the organisation’s position in each of these areas, the manual seeks to ensure that its representatives act with clear and consistent objectives when monitoring resolution colleges. This, in turn, leads to clear and consistent messages to participating authorities and consequently, improvements in the efficiency and effectiveness of the process.

Survey of resolution authorities

The EBA has a duty to monitor how Member States ensure that each resolution authority has the expertise, resources and operational capacity to apply resolution actions, and is able to exercise its powers with the speed and flexibility that are necessary to achieve the resolution objectives. Considering this, the EBA launched an updated survey in order to assist resolution authorities across the European Union by providing a general overview and details of the main trends in certain organisational aspects of all established resolution authorities.
Analysing contributions to deposit guarantee schemes (DGSs)

Report on DGS risk-based contributions

In 2017, the EBA’s efforts focused on analysing if DGSs are adequately funded, and ensuring that information about funding levels and the use of DGS funds is public. To that end, the EBA developed a report on the implementation of the EBA Guidelines on methods for calculating contributions to DGSs, and published information about DGSs’ available financial means and covered deposits, as well as about cases when DGS funds were used in bank failures, or to prevent bank failures.

The report on the implementation of the EBA Guidelines on methods for calculating contributions to DGSs showed that the Guidelines have broadly met the aim of introducing different contribution levels for institutions according to their riskiness. This was a positive finding, as it showed that riskier institutions contribute more and that there is an incentive for institutions to become less risky. However, the analysis also found that the method outlined in the Guidelines, and currently in use, allows enough flexibility for the authorities to design the system of contributions significantly different from what the inherent riskiness of institutions seems to be, and that it may need to be reviewed in the future to ensure a more consistent approach across the EU, while still catering for national specificities.

Deposit protection means that deposits up to EUR 100,000 are protected in the event of bank failure. Deposit protection plays a key role in ensuring financial stability, as it lowers the risk of a deposit bank run. From a depositor’s perspective, it is also very important because it ensures that their money (up to the coverage level) is safe and they will receive it promptly when their bank fails.

The EBA plays an important role in ensuring that DGSs provide a robust level of protection. To that end, over the last few years, we have published a number of detailed guidelines, addressed mainly to the DGS authorities. These guidelines ensure, among other things, that DGSs effectively pay out depositors in cross-border failures, that DGSs stress test various aspects of their operations to ensure they can pay out depositors effectively in a crisis, or that the way institutions contribute to DGS funds incentivises them to be less risky.

In 2017, our focus was on increasing transparency in relation to DGSs’ levels of funding, and the numbers of cases where DGS funds are used across the EU. Data on both aspects are now published and regularly updated on the EBA’s website.

Working on this topic is very rewarding because it combines financial stability and consumer protection issues. It is also very dynamic, because DGS payouts happen often, and so real-life cases test the existing framework.
Publication of DGS-related information including available financial means and notifications

In 2017, the EBA took the initiative to publish for the first time information on two key concepts in the Deposit Guarantee Schemes Directive (DGSD): available financial means (AFM) and covered deposits. The data provides an overview of the level of pre-funded resources available to each DGS in the EU to cover its potential liabilities to depositors. The pre-funded available financial means of each DGS are in the process of being built up under a new funding model introduced in 2014. The publication, which will be done on a yearly basis, will contribute to enhancing the transparency and public accountability of DGSs across the EU to the benefit of depositors, markets, policy-makers, DGSs and Member States.

Towards the end of 2016, the EBA took the initiative to propose that any uses of DGS funds, including in bank failures, should be notified to the EBA, and information about such failures should be published on the EBA’s website. This new notification framework builds on the existing approach of publishing information about bank resolutions. This information, which is publicly available on national authorities’ websites, but difficult to collate, is now easily accessible to the authorities and allows all interested parties to better understand the numbers of bank failures across the EU and the public measures taken to deal with those failures.

Monitoring valuations and MREL in the EU

Quantitative update of the MREL report

Following its initial comprehensive report on MREL, published in December 2016, the EBA has continued to monitor the MREL capacity and funding needs of European banks.

In April 2017, the EBA published draft implementing standards on the reporting of MREL decisions by resolution authorities to the EBA, with appropriate templates to capture the main component of the decisions adopted and basic procedural principles for the data flow. The European Commission has yet to endorse these ITS.

In December 2017, the EBA published an update of the original MREL quantitative analysis contained in the December 2016 Report. The update provided an overview of the current capacity of MREL-eligible debt, analysis of current MREL ratios and estimated hypothetical MREL funding needs for a sample of 112 EU banks, which cover almost two-thirds of EU banking assets. Although results varied significantly between and within different categories of banks, on aggregate banks in the sample had improved their risk profile, as measured by risk-weighted assets, by 4.9%. They only marginally increased the stack of MREL eligible instruments (nominal MREL increased by +0.1%) and slightly improved the quality of MREL – the stock of subordinated MREL instruments increased by 1.9%.

For the future, the EBA intends to revise its methodology to take into account changes in the legal framework and the progressive adoption of MREL decisions for European banks.

Working group on valuations

Valuation in resolution is a complex exercise that presents significant challenges in practice, including swift data access, the availability of good-quality recent information and coordination with other authorities. Issues with valuation are often at the core of litigation against resolution authorities and other stakeholders. Therefore, the EBA continued its work on valuation for the purposes of resolution in 2017, to be able to address such challenges and to ensure preparedness for future cases. In particular, the EBA established a working group focused on the set-up or adjustment of management information systems for the purpose of valuation in resolution, which is key to a robust and credible valuation and to a timely and effective resolution action.
Determining and monitoring key risks in the banking sector across Europe

Monitoring the developments of the EU banking sector

Since its establishment, the EBA has contributed to ensuring the stability, integrity, transparency and orderly functioning of the EU banking sector. This has been achieved through monitoring and assessing market developments, as well as by identifying trends, potential risks and vulnerabilities across banks in Europe. These analyses have triggered policy actions when deemed necessary.

To promote this role, the EBA has developed, over time, an extensive risk infrastructure, including supervisory reporting standards, solutions for data collections and tools for data exploration. The EBA’s main and regular outputs for monitoring, analysing and addressing risks in the EU banking sector are quarterly risk dashboards (RDBs), an annual Risk Assessment Report (RAR), booklets summarising the results of the risk assessment questionnaire (RAQ) addressed to banks and analysts, and EU-wide transparency and stress test exercises.

Assessing risks in the EU banking sector

As a key tool to monitor the main risks and vulnerabilities of the EU’s banking system, the EBA continued to produce its regular RAR. This report describes the main developments and trends that have affected the banking sector during the year and shows the EBA’s outlook on the main microprudential risks and vulnerabilities for the future. Besides assessing market developments and risks for banks, it also serves as an accountability tool to the European Parliament, European Council, European Commission and ESRB. In 2017, the EBA published this report together with the EU-wide transparency exercise, allowing all the stakeholders to access banks’ individual information.

This assessment relies primarily on supervisory data collected under the ITS. Since the initial adoption of the standards in 2014, the EBA has focused its work on collecting and establishing uniform reporting requirements, allowing the supervisors to use comparable figures across the EU. This standard information represents an important tool to improve market discipline and monitor the overall stability of the EU banking system, covering important figures such as the reporting of own funds and capital requirements, financial statements, asset quality, and banks’ liquidity and profitability.

The quarterly risk dashboard is another important tool for the EBA’s regular risk assessment. In 2017, the EBA published four reports describing the main risks and vulnerabilities in the banking sector through a set of risk indicators. The EBA risk dashboard also includes a statistical annex, which details some of the main key figures for every EU country. The EBA introduced a new set of information in this report, such as the total amount of non-performing loans and three indicators (leverage ratios and liquidity coverage ratio), enhancing the overall analysis of the EU banking sector. Moreover, for ease of interpretation and use, and to help users understand the calculation of risk indicators, the EBA also published the Methodological guide on risk indicators and detailed risk analysis tools.

The outcomes of the EBA’s RAQs are the final component of the regular risk assessment published by the EBA. These questionnaires are a semi-annual exercise, surveying banks and market analysts, which provides a deeper understanding of the market participants’ perspectives and outlook on challenges ahead.

The EBA also relies on market data, market intelligence and supervisory reports to support its board decisions and provide information to other public authorities. For example, the EBA produces weekly newsletters on liquidity and funding, and market developments. Besides this regular assessment, the EBA dedicates additional resources to create thematic risk reviews, such as banks’ funding plans and main trends in asset quality across EU countries.
Preparing for the 2018 EU-wide stress test

The EU-wide stress test serves as a common framework on which competent authorities (CAs) can base their supervisory assessment of banks’ resilience to relevant economic and financial shocks. This exercise is an important tool that allows supervisors to identify residual areas of uncertainty, as well as appropriate mitigation actions. Moreover, the exercise strengthens market discipline through the publication of consistent and granular data on a bank-by-bank level, illustrating how balance sheets are affected by these common shocks.

Following the decision of the Board of Supervisors in December 2016 to run a stress test in 2018, the EBA carried out significant preparatory work for the 2018 EU-wide stress test. Most of the 2017 work stream was focused on drafting and publishing a methodological note and templates to be used in the exercise. The exercise is initiated and coordinated by the EBA, and undertaken in close cooperation with the CAs (the SSM for the euro area banks), the ECB and the ESRB – the former two are responsible for the design of the baseline and the adverse macroeconomic and market risk scenarios, respectively.

The EBA also organised a workshop with the industry on 22 June 2017 and launched a discussion phase on methodology and templates, which lasted until the end of July. The EBA received more than 1,000 comments, which were analysed and, whenever appropriate, resulted in adjustments to the methodological note and templates. In addition to the discussion with the industry, the EBA staff also set up a “frequently asked questions” (FAQ) process to address banks’ and CAs’ questions, thus facilitating the process and guaranteeing consistency between countries.

Implementing funding plans

The EBA continued to monitor the composition of funding sources across the EU. In July 2017, the EBA published a landmark report providing a forward-looking analysis of banks’ future funding plans and an assessment of the level of asset encumbrance. Compared with 2015, the asset encumbrance increased by 1.2 percentage points to 26.6% in December 2016. The results have shown that, besides covered bonds, the main sources of asset encumbrance are repos and over-the-counter (OTC) derivatives. Some of the countries particularly affected by the sovereign debt crisis showed a decreased dependence on the use of central bank funding, which may reflect a general improvement of the funding position in these countries.

The banks projected asset growth mainly driven by loans to households and non-financial corporates. Further analysis also suggested that high non-performing loan (NPL) levels, combined with more thinly capitalised banks, could be a drag on new lending unless they are properly addressed. Moreover, clients’ deposits remain the main funding source, and banks’ plans suggest that the proportion of covered bonds, as a source of asset encumbrance, will continue to rise.

ONGOING WORK

The exercise was formally launched at the beginning of 2018 and the results are expected to be released by 2 November 2018.
Strengthening the EBA’s role as EU data hub for the collection, use and dissemination of banking data

Improving transparency through data

The EBA continued to play an important role in promoting and supporting the exchange of information among supervisors. The memorandum of understanding (MoU) for sharing data belonging to individual banks continues to enhance the comparability, across Europe, of a set of risk indicators for around 200 banks. The EBA continued to enhance this data set by developing specific analytical tools, helping the national supervisors to create their own dashboards and providing specific training on supervisory reporting.

For the fourth consecutive year, the EBA published information on indicators of global systemic importance. The EBA continues to enhance and lead on data disclosure across Europe. This information is a further step towards improving the general public understanding about systematically important institutions, and their key figures and business activities.

The EBA also published a list of O-SIIs. These are institutions that, because of their systemic importance, are more likely to raise risks to financial stability, potentially conveying negative spillovers and externalities into the system. For the above reasons, supervisors or macro-prudential authorities may demand that these institutions keep an additional capital buffer. By publishing and maintaining this list, the EBA provides essential information to market participants and the wider public.

The EBA also conducted an EU-wide transparency exercise during the second half of 2017. This exercise, carried out since 2011, is part of the EBA’s work to promote market discipline and improve consistency in EU banks’ figures. The 2017 exercise relied solely on supervisory reporting data (financial reporting (FINREP) and common reporting (COREP)) and included 132 banks from 25 EU Member States and Norway.

The data processing and disclosure of figures were carried out by the EBA in cooperation with competent authorities. The EBA received and published up to 4,000 data points for each bank in the sample. These amounted to approximately 0.6 million data points published in an aggregated form, covering the following areas: capital, leverage ratio, RWA, profit and losses, market risk, credit risk, exposures to sovereigns, non-performing exposures and forborne exposures.

The information disclosed is extensively used by banks, market analysts, academics and international organisations in their assessments of EU banks. To facilitate any analysis of the transparency data, the EBA has also made available, along with the transparency exercise data, a set of data tools, which allows users to exploit consistent bank-by-bank figures through maps or analytical Excel tools.

Figure 9: EU-wide transparency exercise
Expanding the EBA’s data infrastructure

In 2017, the EBA dedicated additional efforts to expand its data infrastructure. This project aims to collect and expand the current sample (approximately 200 banks) to the whole population of EU banks, representing a significant step towards the role of becoming a European data hub for banking information. Moreover, this data hub can also enhance the ability to identify and compare national trends of smaller institutions and detect vulnerabilities across the sector, helping all the supervisors mitigate risks across the European banking sector.

Establishing a common framework for non-performing loans

The EBA continued to promote several initiatives to establish a common framework for the valuation and measurement of NPLs in Europe. In particular, in July 2017, the EBA was invited by the Council of the European Union, along with other EU bodies, to contribute to the European Action Plan to address NPLs.

Since the very first year of its existence, the EBA has devoted significant resources to the establishment of a framework for gathering statistical information, covering both regular and ad hoc data collections. The EBA’s statistical function now plays a key role in the EBA’s work related to the risk and vulnerabilities analysis of the banking sector, the assessment of regulatory proposals, advice to legislators on future regulation, and promotion of market discipline through data disclosure across the EEA.

With a team of highly skilled statisticians, which I have the privilege to lead, information is collected via a dedicated IT platform. The latter is integrated in a data warehouse of billions of data points, which are processed with state-of-the-art statistical analysis software. The data are made available to analysts across the organisation and, subject to rules on confidentiality, disclosed to the public.

Currently, the EBA’s statistical function is mainly focused on setting up European Centralised Infrastructure for Supervisory Data (EUCLID), a new data infrastructure, which will allow the EBA to collect data from the EU/EEA competent authorities for all credit institutions on both an individual and a consolidated basis. Just to give you a comparison, in 2011, when the EBA was established, the first data infrastructure collected data from 55 institutions and up to about 200 data points for each individual institution. We are now collecting data from the 200 largest EU/EEA institutions and up to 60,000 data points. When EUCLID is completed, we are going to increase the number of reporting entities by up to 50 times. This is the next frontier for the EBA’s statistical function.
EBA NPL templates

The development and introduction of the EBA NPL templates follow the invitation from the Council of the EU and the call from the European Commission to address this topic. The adoption of these templates aims to reduce information asymmetries between potential buyers and sellers of NPLs, which may help establish a proper secondary market for these loans in the EU. This common framework may also contribute to promoting other initiatives, such as national asset management companies (AMCs) and NPL platforms.

The EBA published the NPL templates in December 2017, allowing banks to provide comparable and standardised data to investors and stakeholders. On the one hand, the templates cover different data needs for the initial screening of an NPL bank’s portfolio and, on the other hand, for the subsequent financial due diligence (FDD) and valuation. Moreover, they also include references to existing reporting, which may minimise the initial implementation costs for banks. Nevertheless, the EBA NPL templates are not a supervisory reporting requirement.

The templates’ features were discussed and developed in cooperation with competent authorities and EU institutions. Furthermore, the EBA has also promoted interactions with the industry for a 2-week period, and the feedback received has revealed an essential input for the final version of the templates.
European Banking Authority

Protecting consumers, monitoring financial innovation and contributing to easy retail payments in the EU

In 2017, the EBA continued enhancing the protection of consumers, promoting transparency, simplicity and fairness for consumer financial products and services across the Single Market, monitoring financial innovation, and contributing to secure and efficient retail payments in the EU.

While the main focus of the EBA was on developing several sets of regulatory requirements under the revised Payment Service Directive (PSD2), the EBA also finalised the development of technical standards under the Payment Accounts Directive (PAD) and worked to enhance convergence in supervisory practices for payment and consumer protection requirements.

The EBA also continued to fulfil its mandates under the EBA Regulation to monitor new and existing financial activities and report on consumer trends.

For issues that cut across the banking sector but are also relevant to the insurance and investment sectors, the EBA cooperated closely with the other two ESAs, EIOPA and ESMA.

Protecting consumers

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. To this end, the EBA plays a critical role in the implementation of EU policies designed to protect consumers of retail financial services. In this respect, in May 2017, the EBA published the final draft of three technical standards under the PAD setting out the EU standardised terminologies and definitions for services linked to a payment account, as well as the standardised formats and common symbols of the fee information document (FID) and the statement of fees (SoF). These technical standards contribute to enhancing comparability of fees, through standardised terminology and disclosure documents across the European Union. The technical standards were published in the Official Journal, without changes from the version that the EBA had submitted to the EU Commission in May 2017, and are based on the EBA Guidelines on national provisional lists of the most representative services, which the EBA published in March 2015.

In addition, the EBA started work to enhance convergence in the supervision of consumer protection requirements across the EU. The focus of this work were the EBA Guidelines on product oversight and governance (POG), which became applicable on 3 January 2017. These Guidelines aim to ensure that providers and intermediaries consider the consumers’ best interests while developing and/or distributing a product, rather than focusing on reduction of costs and/or the generation of revenues and profits at the expense of consumers’ interests. The EBA’s pilot work aims to achieve a consistent application of the guidelines by focusing on interpretation and implementation issues.

Finally, in June, the EBA published its annual Consumer Trends Report, which covered issues and trends the EBA had observed in respect of the retail banking products and services within its remit, and topical issues.

ONGOING WORK

In 2018, the EBA will work to ensure a consistent approach across Member States on the implementation of the requirements under the Payment Accounts Directive.

ONGOING WORK

The EBA’s supervisory convergence work on the EBA Guidelines on product oversight and governance will continue through 2018.
In 2018, the EBA aims to publish a follow-up report assessing the responses received to the EBA's Discussion Paper on FinTech, and setting out a roadmap for the EBA’s work in 2018/9.

The EBA publicly consulted on its proposals. Respondents welcomed the EBA’s initiative and broadly expressed strong support for all areas of proposed work identified in the FinTech Discussion Paper.

While developing the Discussion Paper, the EBA submitted to the European Commission a response to its public consultation entitled FinTech: a more competitive and innovative European financial sector(3). In the response, the EBA conveyed its views on a subset of the Commission’s questions, and indicated that, at that point, the EBA was undertaking a comprehensive review of FinTech entities in the EU and would report on these issues.

Furthermore, in June 2017, the EBA published a report presenting the conclusions of its assessment on innovative uses of consumer data by financial institutions. The report looked at the risks and potential benefits of this innovation and identified a number of requirements under various pieces of EU law that apply to

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Figure 10: FinTech in the EU and the EBA’s proposal for further work

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<tr>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
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</thead>
<tbody>
<tr>
<td>AUTHORISATION AND REGULATORY SANDBOX REGIMES</td>
<td>PRUDENTIAL RISKS FOR INSTITUTIONS</td>
<td>THE IMPACT OF FINTECH ON THE BUSINESS MODELS OF INSTITUTIONS</td>
<td>CONSUMER PROTECTION AND RETAIL CONDUCT OF BUSINESS ISSUES</td>
<td>THE IMPACT OF FINTECH ON THE RESOLUTION OF INSTITUTIONS</td>
<td>THE IMPACT OF FINTECH ON AML AND CFT</td>
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</table>
Ensuring secure, easy and efficient payment services across the EU

Throughout 2017, the EBA continued delivering the six technical standards and six sets of guidelines mandated by the revised Payment Services Directive. In addition, just like under consumer protection, the EBA started supervisory convergence work to ensure that the PSD2 requirements are applied in a sound, efficient and consistent manner.

To that end, the EBA published and submitted to the EU Commission in February the final draft RTS on strong customer authentication and common and secure communication, which were then adopted by the Commission in November. These RTS were developed over a 2-year period, in close cooperation with the ECB, and set requirements for both authentication and access to payment accounts, paving the way for open and secure electronic payments for consumers under PSD2.

These RTS will become applicable only 18 months after they are published in the **Official Journal of the EU** and are the result of difficult trade-offs between the various, at times competing, objectives of PSD2 (see Figure 11). These include enhancing security, facilitating customer convenience, ensuring technology and business-model neutrality, contributing to the integration of the European payment markets, protecting consumers, facilitating innovation, and enhancing competition through new payment initiation and account information services.

Also in February 2017, the EBA published an Opinion in response to the amendments proposed by the European Commission to the RTS the EBA had delivered to the Commission in July 2016 on the separation of card schemes from processing entities under the Interchange Fee Regulation (IFR). These draft RTS specify the requirements with which payment card schemes and processing entities must comply to ensure the independence of their accounting, organisation and decision-making processes, and aim to facilitate greater com-

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**Figure 11**: The competing objectives of PSD2

- **A**: Enhancing competition
- **B**: Facilitating innovation
- **C**: Ensuring technology & business-model neutrality
- **D**: Promoting customer convenience
- **E**: Contributing to a single EU payments market
- **F**: Protecting consumers
- **G**: Strengthening security

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petition among processing service providers, supporting the IFR to create a single market for card payments across the EU.

In July, the EBA published its final Guidelines on authorisation and registration under PSD2, which aim to harmonise the documents and pieces of information that applicants for authorisation as payment institutions (PIs) and electronic money institutions (EMIs) and for registration as account information service providers (AISPs) need to submit to the national competent authorities when seeking authorisation/registration. In order to address specificities of each payment service provider, the Guidelines have been separated into four different sets. The first three sets apply to PIs, AISPs and EMIs respectively. The fourth set, in turn, provides clarity to applicants in respect of the completeness of the application.

Also in July, the EBA published its final Guidelines on major incident reporting, which aim to set out the criteria, thresholds and methodology to be used by payment service providers to determine whether or not an operational or security incident should be considered major and, therefore, be notified to the competent authority in the home Member State. Moreover, the Guidelines establish the template that payment service providers will have to use for this notification and the reports they have to send during the lifecycle of the incident, including the timeframe to do so.

In October, the EBA published the final report on the Guidelines on procedures for complaints of alleged infringements of PSD2. The Guidelines establish requirements for the complaints procedures to be taken into consideration by competent authorities for ensuring and monitoring effective compliance with PSD2. In particular, these guidelines specify

A lot of my work has focused on payment services and in particular on delivering on a key EBA mandate under the Revised Payment Services Directive (PSD2), namely the regulatory technical standards on sectoral competent authorities (SCAs) and CSC. This work required a careful balancing act between different, and at times competing, objectives of PSD2, including enhancing security, promoting competition, protecting consumers, facilitating innovation and enhancing customer convenience.

After 2 years of development, which included extensive engagement with all different market stakeholders to understand the diversity in the market, the EBA formally submitted the final draft RTS to the Commission in February 2017. But our work did not stop there. Indeed, the European Commission suggested four substantial amendments in a letter in May and we responded by sending an Opinion to the Commission in June, providing our views on the Commission’s proposals. The EBA adopted the revised RTS in November 2017. This process reflected the controversial nature of these RTS and the continued lobbying from various market participants.

From a personal viewpoint, while this work was extremely challenging, as it required technical expertise as well as communication and engagement skills with all stakeholders, including competent authorities, the European institutions as well as the industry, with very diverging views at times, it was equally rewarding and I look forward to seeing the changes that will be taking place in the market.
the requirements for the channels to be used by complainants to file their complaints, the information that competent authorities should request from complainants, and the information that competent authorities should include in their responses to complaints. In addition, the Guidelines require competent authorities to make an aggregate analysis of the complaints received, to document their internal complaints procedures and to publish information on their procedures for complaints of alleged infringements of PSD2.

In December, the EBA published final Guidelines on security measures for operational and security risks under PSD2, which aim to harmonise the requirements that payment service providers should implement in order to mitigate operational and security risks derived from the provision of payment services. These requirements should include the establishment of an effective operational and security risk management framework; processes that detect, prevent and monitor potential security breaches and threats; risk assessment procedures; regular testing; and processes to raise awareness of payment service users about security risks and risk-mitigating actions.

Moreover, in December 2017, the EBA published the final draft RTS on central contact points under PSD2, which specify the criteria for determining when the appointment of a central contact point under PSD2 is appropriate and the functions that these contact points should have. Also in December 2017, the EBA published the final draft RTS and ITS on the electronic central register under PSD2. The draft RTS set the technical requirements related to the development, operation and maintenance of the EBA Register under PSD2, which include the requirements for (i) provision of information from competent authorities to the EBA and (ii) access to, searching for and retrieval of information from the register, also incorporating a machine-readability functionality.

ONGOING WORK

The EBA aims to finalise the draft RTS specifying the framework for cooperation and the exchange of information between competent authorities under PSD2 in 2018.

ONGOING WORK

The EBA will continue supervisory convergence work on payment services through 2018.
The ITS specify the type of information that will be contained in the register about a predefined list of payment service providers as provided by PSD2. The publicly available information on the register will allow market participants to identify easily the above payment service providers, the services they provide and the locations where they are carrying out activities.

In October, the EBA launched a public consultation on draft RTS specifying the framework for cooperation and the exchange of information between competent authorities under PSD2. The RTS also clarify the type of information as well as the templates to be used by payment institutions when reporting to the competent authorities of the host Member States on the payment business activities carried out in their territories.

In addition to all the above, in 2017, the EBA initiated its supervisory convergence work on payment services, which resulted in the publication of an Opinion in December on the transition from PSD1 to PSD2. In its Opinion, the EBA clarifies a number of issues identified by market participants and competent authorities, including with regard to the transitional period planned under PSD2, and provides advice to competent authorities on how to address these issues.

### Table 5: Progress of EBA deliverables under PSD2

<table>
<thead>
<tr>
<th>Milestones reached</th>
<th>Milestone 1: EBA has started work</th>
<th>Milestone 2: EBA has published CP with draft GL/TS</th>
<th>Milestone 3: EBA has published Final draft TS or Final GL</th>
<th>Milestone 4: EBA has published GL Compliance table or Commission has published TS in OJ</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. GL on security of internet payments under PSD1</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>2. RTS on scheme separation under IFR</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>3. RTS on passporting notifications under PSD2</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>4. GL on authorisation of payment institutions under PSD2</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>5. GL on professional indemnity insurance under PSD2</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>6. GL on operational &amp; security measures under PSD2</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>7. GL on complaints procedures by CAs under PSD2</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>8. GL on incident reporting under PSD2</td>
<td>✓</td>
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<tr>
<td>9. RTS on strong authentication &amp; secure comms. under PSD2</td>
<td>✓</td>
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<tr>
<td>10. RTS on central contact points under PSD2</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>11. RTS &amp; ITS on EBA Register under PSD2</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>12. RTS on home-host coordination under PSD2</td>
<td>✓</td>
<td>✓</td>
<td>2018</td>
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<tr>
<td>13. GL on fraud reporting under PSD2</td>
<td>✓</td>
<td>✓</td>
<td>2018</td>
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EBA Brexit preparations

On 29 March 2017, the United Kingdom (UK) notified the European Council of its intention to withdraw from the European Union (EU) pursuant to Article 50 of the Treaty on European Union. The withdrawal will take place on the date of entry into force of a withdrawal agreement or, failing that, 2 years after the notification, on 30 March 2019.

The withdrawal of the UK from the EU (Brexit) is an unprecedented situation. The UK’s financial system is highly interconnected with that of the rest of the EU and, therefore, Brexit creates various challenges. It is incumbent on authorities and regulators, such as the EBA, to be prepared for the various potential outcomes in this process. It is also crucial that firms themselves are prepared.

During 2017, the EBA looked at the impact of Brexit from two angles. Firstly, the EBA examined the potential impact of Brexit on the EU’s banking and financial system. Secondly, work was also undertaken on the implications of Brexit for the EBA as an organisation, given its location in London.

Impact of Brexit on the EU financial sector

The EBA is not involved in the negotiations, but instead focuses on potential risks, including cliff edge risks, and undertakes analysis and necessary preparations. The EBA’s work cuts right across the organisation, as Brexit touches on many different topics. In carrying out this work, the EBA is also fully coordinated with other EU actors including ESMA, EIOPA, the ECB and the European Commission.

In 2017, the EBA divided its work into three key areas: risk analysis; regulatory matters; and supervisory cooperation and equivalence.

Risk analysis

In the context of Brexit, risk analysis must consider the potential for a more extreme scenario of ‘no deal’ in March 2019. The UK is an important financial centre for the EU. In the event that it becomes a third country, there are implications for the EU’s financial sector. In 2017, the EBA undertook work to assess the various potential risks, aiming to ensure that appropriate actions are taken sufficiently far in advance to address those risks.

The EBA looked at a wide range of issues, including direct lending exposures, contract continuity, market infrastructure access and data transfers. To address challenges in these areas, actions will need to be taken by firms themselves to mitigate the risks; for instance, the EBA expects to see firms assessing their relevant contracts with UK counterparties and repapering them where issues arise. This takes time, and requires analysis and possibly agreement from the counterparty, and firms should have started this process by now. Similarly, firms should look carefully at their exposures to UK central counterparties (CCPs) and other market infrastructure, and migrate where necessary. In 2017, the EBA monitored firms’ contingency plans and implementation in this regard by regularly surveying competent authorities.

On contingency planning, all firms need to be prepared for the possibility of a no deal and no transition Brexit, which remains a possibility until there is a legally binding agreement in place.
Regulatory matters

In response to Brexit, institutions have been considering their European structures and revising them in some cases to ensure that they can maintain EU market access after Brexit. In 2017, the EBA monitored the trends in this regard. The EBA also carefully monitored the substance of the restructured businesses that firms were planning by regularly surveying competent authorities about their interactions with these firms. ‘Empty shells’ are not appropriate, and firms must have adequate risk management capabilities in the entity generating that risk. Nevertheless, the EBA does recognise that some pragmatism and flexibility is needed within these parameters.

Depending on the outcome of the Brexit negotiations, the UK may become a third country for the purposes of EU laws, which creates special challenges for oversight and supervision of the activities undertaken by (commercial) presence of EU27 entities in third countries. Activities undertaken by presence in third countries (which the UK will become, absent an agreement to the contrary) cannot be undertaken under the same legal setting and right of access after Brexit. This type of supervision relies, to a great extent, on cooperation and trust between authorities to ensure effective supervisory oversight and access to information.

Certain activities, involving significant risk transfer and management in the third country (e.g. outsourcing – especially of IT – and back-to-back booking) will both be limited and require a higher level of supervisory cooperation.

In October 2017, the EBA published an Opinion that aimed to provide needed clarity to supervisors and firms on the minimum agreed standards to be applied throughout the EU when dealing with the issues that arise for firms restructuring because of Brexit. The EBA will be monitoring the developing situation carefully.

Supervisory cooperation

The nature of the political settlement will in the first instance determine the relationship, but if the UK becomes a third country in March 2019 then, as with any other third country that is significant from the perspective of the EU financial system, the EBA would expect itself and the EU27 competent authorities to have close contact and cooperation with the UK authorities going forward. In the case of the UK, cooperation will be facilitated by the fact that both sides are starting from a position of close alignment and cooperation. This cooperation and contact would be within the existing legal framework for third countries.

EBA Opinion on Brexit issues

On 12 October, the EBA issued its ‘Opinion of the European Banking Authority on issues related to the departure of the United Kingdom from the European Union’ (the Opinion). The Opinion is a non-binding statement of the EBA’s expectations about how authorities and institutions should behave when dealing with issues related to Brexit.

The Opinion aims to provide greater certainty to firms and ultimately to ensure a level playing field. In the Opinion, the EBA addresses a number of relevant policy topics relating to authorisations, the prudential regulation and supervision of investment firms, internal models, outsourcing, internal governance, risk transfers via back-to-back and intragroup operations, and resolution and deposit guarantee scheme issues.

The Opinion is focused on the period prior to the departure of the UK. The overarching principles underlying all of the guidance in the opinion are that (i) the existing legal and regulatory framework should be applied in a consistent and harmonious way throughout the EU, and competition on regulatory or supervisory standards should be avoided; (ii) authorities should avoid imposing an unnecessary regulatory burden on firms, while at the same time regulatory standards which have always applied should be maintained; and (iii) cooperation and coordination between supervisors, as well as between supervisors and resolution authorities, is important both now and in the future.

In each of the specific areas identified by the EBA, the Opinion sets out some key principles, followed by specific detailed technical guidance addressed to firms and authorities. A report is appended to the Opinion setting out the detailed analysis underlying the guidance provided.

The EBA will monitor how the Opinion is applied in practice and continue to seek convergence through its tools and powers. The EBA may update the Opinion or issue further products in future in response to changing circumstances.
Impact of Brexit on the EBA

The current legal seat of the EBA is in London. Following Brexit, it will be necessary for the EBA to move to a jurisdiction that will remain in the EU. While leaving London is a challenge, the EBA has time to prepare and expects minimal disruption to its service.

There was a detailed process for other EU cities to bid to host the EBA upon its relocation. At a vote of the European Council held on 20 November 2017, Paris was chosen as the new seat of the EBA.

The move out of London to Paris will inevitably have an impact on the EBA’s resourcing, and one of the EBA’s key aims is to maintain operational continuity for the organisation. While the turnover rate of staff has increased since the vote, the EBA is still able to attract the skilled individuals needed, and the certainty about the EBA’s future location in Paris is sure to help this further. To manage staff turnover going forward, the EBA is considering various measures, including the establishment of reserve lists for 10 different positions from which vacancies can be filled quickly, where necessary.

During the course of 2017, the EBA carried out other preparatory work to ensure that the relocation of the EBA from London to Paris goes as smoothly as possible, and does not have an impact on the EBA’s work.
International engagement

Contributing to the development of global banking standards

**Basel Committee**

The EBA welcomed the agreement reached on the finalisation of the Basel III framework by the BCBS, in December 2017, which concludes the global post-crisis prudential reforms. The EBA supports the aim of the global agreement to restore the credibility and comparability of regulatory capital metrics. The EBA published a summary of the results showing the impact of the agreed reforms on the EU banking sector.

The EBA has been among the first to identify and document with extensive empirical analyses the excessive variability in RWAs. The EBA has actively promoted new rules and supervisory guidance to harmonise practices and re-establish the credibility of the framework. The EBA has supported the introduction of constraints to the use of internal models, especially in areas where models had poor predictive power. However, the EBA has also warned against the risk by significantly reducing the risk sensitivity of the framework. The EBA was concerned about ensuring that the constraints on the use of internal models did not result in unwarranted increases in the charges for low-risk business and implicit incentives to shift towards riskier activities.

The EBA considers strong international standards as essential to support safe and sound cross-border banking on a global scale. The EBA is committed to engaging with competent authorities and European co-legislators to ensure the successful implementation of the standards in the EU.

From a European perspective, the EBA views the way forward as threefold. In the first place, thorough analyses will be needed to ensure that the international standards are incorporated in national law in accordance with the principle of proportionality, taking into account the compliance burden for smaller and less sophisticated local banks and considering the appropriateness of the impact on specialised business models. Secondly, the EBA will need to complement the newly agreed framework with two equally important toolkits to address and monitor undue variability and potential arbitrage in the risk-weighted assets calculation, namely with reference to the bottom-up repair of modelling practices and the benchmarking analysis of internal models. Lastly, the EBA will need to make sure that enhanced transparency vis-à-vis the markets accompanies the implementation of the newly agreed rules.

The EBA is working, together with the Basel Committee, on the fundamental review of the trading book (FRTB). Back in November 2016, recognising the compliance burden that certain elements of the new standards may imply for small and less complex trading book businesses, the EBA advised the European Commission on a system of proportionality thresholds, whereby institutions with the smallest trading books may derogate market risk requirements and apply instead the credit risk framework, while institutions with a mid-tier trading book may continue to apply a potentially recalibrated version.

Overall, the EBA believes there is merit in fine-tuning the relative distance between the newly introduced approaches – so as to target the initially envisaged modelling premium – while maintaining a less sophisticated standardised alternative. That alternative could be the already existing (Basel 2.5) methodology, recalibrated to achieve levels of capital charge comparable with those of the new approaches.

In December 2017, the EBA published a Discussion Paper on the implementation in the EU of the revised market risk and counterparty credit risk frameworks, i.e. the FRTB and the standardised approach for counterparty credit risk (SA-CCR). This paper discusses some of the most important technical and operational challenges to implement the FRTB and SA-CCR in the EU. It aims to provide some preliminary views on how these implementation issues could be addressed and, at the same time, seeks early feedback from the stakeholders on the proposals. The paper also puts forward a roadmap for the development of the regulatory deliverables on the FRTB and SA-CCR included in the CRR 2 proposal.
Contributing to global policy-making and coordination

Financial Stability Board

The EBA is actively engaged in international fora and standard-setting bodies developing the resolution framework. The EBA is a member of the Financial Stability Board’s [FSB’s] Resolution Steering Group [ResG], the Cross-Border Crisis Management Group [CBCM] and several work streams in which it actively contributes to the development of regulatory policy in resolution matters. The EBA’s areas of particular focus are bail-in execution, internal total loss absorption capacity (TLAC), funding and liquidity in resolution, and effectiveness of cross-border resolution.

Cooperation agreement with the US authorities

In September 2017, the EBA signed a framework cooperation arrangement (FCA) with five US financial regulatory agencies: the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), the Securities and Exchange Commission (SEC) and the New York State Department of Financial Services.

The FCA lays out the basis for subsequent cooperation arrangements on bank crisis management and resolution between any of the EU supervisory or resolution authorities and any of the participating US agencies. This FCA has the objective of promoting resolution planning and cooperation for cross-border institutions. In the EU, the BRRD gives the EBA the power to conclude such framework cooperation arrangements with non-EU authorities on resolution-related topics. The FCA covers crisis management-related topics, which include early intervention, resolution planning, resolvability assessment and resolution.
The ESAs’ cross-sectoral work under the Joint Committee

In 2017, the Joint Committee of the European Supervisory Authorities continued to be a central point for coordination and exchange of information between the ESAs and with the European Commission and the European Systemic Risk Board. Progress in the field of anti-money laundering and countering the financing of terrorism was in the spotlight of the Joint Committee’s work under the EBA Chairmanship.

Joint Committee: forum for exchange on cross-sectoral risks

The three ESAs continued their efforts to identify potential risks to financial stability across the three sectors, with a view to supporting consistent approaches and clear convergent guidance to supervisors and market participants. Beyond being a cross-sectoral forum for exchange among its participants, the Joint Committee started to look at the potential risks triggered by Brexit. Here, a focus is on possible implications for the provision of financial services, the continuity of contracts and ensuring consistent EU approaches to oversight of cross-border banking groups, including possible relocations. The two Joint Committee Risk Reports, published in spring (JC 2017 09) and autumn (JC 2017 46), convey the ESAs’ preliminary analysis on this issue.

Beyond that, both Joint Committee Risk Reports discuss the persistent low profitability of banks and insurers in a low-growth and low-yield environment, valuation risks with risks of a reversal of risk premia, and interconnectedness, in particular through asset price contagion and direct financial exposure. The reports moreover address challenges arising from rapid developments in information technology, including FinTech, and its impact across the three sectors.

Progress in the ESAs’ mandate in the fight against money laundering and terrorist financing

The fight against money laundering and terrorist financing has been a key priority for the Joint Committee over the last year, as the ESAs sought to create a common understanding, fostered by anti-money laundering/countering the financing of terrorism (AML/CFT) competent authorities and credit and financial institutions, of the risk-based approach to AML/CFT, and how it should be applied.

To this end, the ESAs published guidance on money laundering/terrorist financing (ML/TF) risk factors, which provide institutions with the tools they need to make informed, risk-based decisions on the effective management of ML/TF risk and help competent authorities assess whether or not institutions’ ML/TF risk assessment and management systems and controls are adequate. Together with the risk-based AML/CFT Supervision Guidelines (published in 2016) and a Joint Opinion on the ML/TF risk affecting the internal market that was published in February, the risk factors Guidelines provide a framework for the consistent application of EU AML/CFT legislation, and transform the way European supervisors and firms discharge their AML/CFT functions. Consequently, the Commission, in its 2017 supranational risk assessment, recognises the ESAs’ pivotal role in raising the EU’s capacity to meet AML/CFT challenges across the financial sector.
What anti-money laundering/countering the financing of terrorism (AML/CFT) supervisors are doing is incredibly important. To paraphrase the Fourth Anti-Money Laundering Directive (4AMLD), their job is to make sure that financial institutions have the systems and controls in place to prevent the use of the financial system for money laundering and terrorist financing purposes, and that, in doing so, they not only protect the integrity and stability of the financial markets, but also contribute to keeping society safe.

Since the EBA’s inception, we have been working to promote a common supervisory culture and to foster the convergence of supervisory practices. We are working towards a shared understanding of the rules we all seek to enforce, and a similar supervisory response to institutions with similar money laundering/terrorist financing (ML/TF) risk exposure and risk profiles to ensure that they are treated consistently wherever they operate in the Single Market. This is important; after all, financial crime respects no borders.

2017 was a particularly significant year for us. Over the last months of it, we issued a series of guidelines and other regulatory instruments that, together, mark a fundamental shift in the way competent authorities and financial institutions discharge their AML/CFT functions. Rather than ticking boxes or having a single right answer to complex compliance questions, this new approach requires financial institutions and supervisors to ‘think risk’, to take a holistic view of all the factors that, together, determine the overall level of ML/TF risk, and to make the right judgement on the effective and proportionate management of that risk. Our joint EBA, ESMA and EIOPA Risk Factor Guidelines and Risk-based Supervision Guidelines are central to this new approach and set out how it should be applied.

Of course, guidelines and other legal instruments are only part of the story and they will not, by themselves, be enough to establish an effective European AML/CFT regime. They need to be implemented consistently and it is here that much of our focus will be, going forward: we are organising workshops for competent authorities, facilitating discussions and the exchange of information, and working closely with competent authorities and our colleagues in ESMA and EIOPA to ensure that we all sing from the same hymn sheet.

Together, I believe we can make a real difference in the fight against financial crime.

The ESAs complemented their work on the fundamental aspects of the risk-based approach with training for AML/CFT supervisors, and guidance and standards on specific aspects of Europe’s AML/CFT regime, including guidelines on managing ML/TF risk in transfers of funds that set out what payment service providers should do to identify and manage fund transfers with incomplete information on the payer or the payee; draft RTS on central contact points to facilitate the AML/CFT supervision of, and AML/CFT compliance by, pay-
ment service providers and e-money institutions that are established in different Member States; draft RTS on the management of ML/TF risk in situations where a third country’s law prevents the application of robust group-wide AML/CFT policies and procedures; and a joint opinion on the use of innovative solutions for customer due diligence (CDD) compliance purposes. This opinion sets out the factors that competent authorities should consider when assessing, on a case-by-case basis, whether or not the use of innovative solutions for CDD purposes is appropriate, with a view to promoting the responsible use of innovation in the AML/CFT context in line with the ESAs’ wider work on financial innovation.

Looking after consumers across financial services, including in the innovative space

Consumer protection and financial innovation continue to figure prominently on the Joint Committee’s agenda. The Joint Committee continued its work on the packaged retail and insurance-based investment products (PRIIPs) Regulation, with the three ESAs putting forward technical advice on PRIIPs with environmental and social objectives (JC 2017 43), concluding that specific and standalone obligations for PRIIPs targeting these objectives would not be proportionate. Moreover, the Joint Committee published three sets of questions and answers (Q&As) on PRIIPs (JC 2017 49), which inform stakeholders about the application of rules and promote common supervisory approaches and practices in the implementation and supervision of the key information document (KID).

In the field of financial innovation, the Joint Committee continued its work on big data by analysing the potential benefits and risks for consumers and financial institutions linked to the use of big data analytics and processes. The final report will encourage the adoption of good practices by financial institutions, and an accompanying consumer information sheet will inform consumers about the use of big data.

Moreover, the work initiated in 2016 on cross-border supervision continued with a view to preparing a general mapping of the rules for the different financial firms operating in the three sectors and to analyse any issues experienced by supervisors.

The Joint ESAs Consumer Protection Day 2017, which took place in Prague, Czech Republic, helped the ESAs to engage with key – and new – stakeholders, especially representatives of consumers, on important issues faced by consumers and investors across the EU (the highlights of the event are available here).

Financial conglomerates

In 2017, the Joint Committee published its annual list of financial conglomerates, showing the location of 80 financial conglomerates with, in particular, the head of group located in the EU/EEA area. In addition, the Joint Committee started to work on reporting templates in this field and will continue doing so in 2018.

ESAs’ progress on the Single Rulebook and ensuring a level playing field

Since the adoption of two Implementing Regulations on credit assessments by external credit assessment institutions (ECAIs) based on the draft ITS submitted by the Joint Committee, five additional ECAIs have been recognised and one has been deregistered. The Joint Committee has updated the Implementing Regulations to reflect these changes.

In addition, the ESAs submitted draft amendments to the RTS on risk mitigation techniques for OTC derivatives not cleared by a central counterparty under the European Market Infrastructure Regulation (EMIR) to align the treatment of variation margin for physically settled FX forwards with the supervisory guidance applicable in other key jurisdictions, after being made aware of certain challenges. The amendments reiterate the commitment to apply the international standards, and require the exchange of variation margin for physically settled FX forwards in a risk-based and proportionate manner.

Board of Appeal

The ESAs continued to provide operational and secretarial support to the Board of Appeal. In 2017, there was one appeal case, brought by FinancialCraft Analytics Sp. Z o.o. against a registration decision by ESMA. The Board of Appeal unanimously dismissed the appeal in July 2017, thereby confirming ESMA’s decision of 8 December 2016 refusing FinancialCraft Analytics Sp. Z o.o.’s registration as a credit rating agency.
Key areas of focus for 2018

Credit risk modelling

The annual benchmarking exercises are key to the work that EBA has been developing for improving the regulatory framework and restoring confidence in internal models. For credit risk, the exercises highlighted several areas to which supervisors – and colleges – should dedicate special attention in 2018. These include practices on defaulted exposures; the definition of default; the use of global models and interaction with country specificities for exposures with counterparties from different jurisdictions; and, finally, unjustified differences between regulatory approaches and possible compensation effects between internal approaches.

For market risk, the report also highlighted some areas that may require future efforts by CAs, such as accentuated pricing variability for equity derivatives, commodities trades and credit spreads products, the materiality of risk factors not in value at risk (VaR) and the consistent representation of the migration effects for incremental risk charge (IRC) on a low credit spread rates environment.

Preparation for the full implementation of Basel III

International standards are an essential common yardstick to support safe and sound cross-border banking on a global scale, while avoiding the fragmentation of financial markets across regional lines. It is of paramount importance that the adoption of international standards is mindful of EU specificities and responds to the principle of proportionality of regulation, but is applied in full for internationally active banks. The process of implementing the final Basel III framework will start in 2018. In this context, the EBA will assess the changes to the IRB, the standard-

Basel III post-crisis regulatory reforms

On 7 December 2017, the Group of Central Bank Governors and Heads of Supervision (GHOS) endorsed the outstanding Basel III post-crisis regulatory reforms, which include the following elements:

• a revised standardised approach for credit risk, which will improve the robustness and risk sensitivity of the existing approach;
• revisions to the internal ratings-based approach for credit risk, whereby the use of the most advanced internally modelled approaches for low-default portfolios will be limited;
• revisions to the CVA framework, including the removal of the internally modelled approach and the introduction of a revised standardised approach;
• a revised standardised approach for operational risk, which will replace the existing standardised approaches and the advanced measurement approaches;
• revisions to the measurement of the leverage ratio and a leverage ratio buffer for global systemically important banks (G-SIBs), which will take the form of a Tier 1 capital buffer set at 50% of a G-SIB’s risk-weighted capital buffer; and
• an aggregate output floor, which will ensure that banks RWAs generated by internal models are no lower than 72.5% of RWAs as calculated by the Basel III framework’s standardised approaches. Banks will also be required to disclose their RWAs based on these standardised approaches.
ised approach, the operational risk, the CVA and output floors in the course of 2018 and at the beginning of 2019. In particular, the EBA is tasked to deliver a report on the Basel III agreement and is preparing data collections, to start during the summer and early autumn, to enable a quantitative analysis of the new Basel III framework. The focus of the EBA’s work will be on the impact of the reforms, both on aggregate, but also on specific business models. The impact analysis of the reforms will be mainly objective, but the EBA is also likely to provide guidance on how to improve the CRR in areas where the lack of clarity had already been identified in the past, for instance through its Q&A process.

Further work on NPLs

Non-performing loans remain a key area of focus in the EBA’s work in 2018. The EBA’s aim is to enhance the common framework for NPLs, with the introduction of guidelines on non-performing exposure (NPE) management and loan origination, monitoring and internal governance, and improved disclosure requirements for NPLs. Furthermore, the EBA is contributing to the work of other bodies and institutions of the EU, such as the publication of AMC blueprint, the analysis on the NPE prudential backstops, and further initiatives to strengthen data infrastructure of secondary markets on NPLs, such as NPL platforms.

Figure 12: NPLs in the EU – on the path to recovery

- ECB Asset Quality Review (AQR), incl. first time application of the NPE definition
- Consultation on EBA Guidelines on NPE management
- Consultation on ECB Guidelines on NPE disclosures
- EBA NPL transaction templates
- ECB Guidance & EU Council’s action plan to tackle NPLs
- Commission’s proposal to reduce NPLs & ECB addendum on prudential backstops
- Consultation of the EBA Guidelines on NPE management

Data Source: IMF / WB, EBA
Guidelines on management of non-performing and forborne exposures

In 2018, the EBA will issue guidelines on management of non-performing and forborne exposures that will apply to all credit institutions in the EU. These guidelines provide supervisory guidance to ensure that credit institutions effectively manage NPEs and forborne exposures on their balance sheets. Their main aim is to achieve a sustainable reduction of NPEs on credit institutions’ balance sheets, which would prove beneficial from both a micro and a macro perspective.

Guidelines on banks’ loan origination, monitoring and internal governance

The EBA will leverage on the existing work from CAs, as well as on work on consumer protection issues, to develop and publish guidelines on loan origination, monitoring and internal governance. The guidelines will set requirements for loan origination policies and procedures, creditworthiness assessments, and monitoring and internal governance.

Disclosure

The EBA will implement guidelines on enhanced disclosure requirements on asset quality and non-performing loans to all banks. They will be based on previous EBA work and broaden the scope of disclosure items on NPEs, forbearance and foreclosed assets.

2018 EU-wide stress test

The EBA will conduct an EU-wide stress test exercise in 2018. In this exercise, the banks involved will apply two scenarios – the baseline and adverse – as a combined outcome of foreign demand, financial and domestic demand shocks in the EU.

The scenarios have been designed to assume the materialisation of four systemic risks, which are currently considered the most relevant threats to the stability of the EU banking sector. These risks are (i) an abrupt and sizeable repricing of risk premia in global financial markets; (ii) an adverse feedback loop between weak banks’ profitability and low nominal growth, as a result of the decline in economic activity in the European Union; (iii) sustainability concerns amid potential repricing of the risk premia and increased political uncertainty; and (iv) liquidity risks in the non-bank financial sector with potential spillovers to the broader financial system.

The 2018 exercise will also include a higher degree of severity than in previous years. In particular, the deviation of the EU real GDP under the adverse scenario will be more significant. For instance, the most important shocks in the adverse scenario would lead to a deviation of EU GDP from its baseline level by 8.3% in 2020, a fall in the Harmonised Index of Consumer Prices (HICP) in the EU below the baseline level of 1.9% in 2020, a decrease in residential property prices by 27.7% and a cumulative fall in residential property prices over the scenario horizon of about 19% at the EU aggregate level.

The EBA will be responsible for coordinating the exercise. In line with its commitment to enhancing the transparency of the EU banking sector, the EBA will act as a data hub and will publish the outcome of this exercise. On the other hand, the CAs will guarantee the quality of the information and decide on any supervisory measures needed, as part of the SREP process. The EBA officially launched the 2018 EU-wide stress test exercise on 31 January 2018, and the results will be published by 2 November 2018, accompanied by the usual disclosure of bank-by-bank data. The transparency provided through the exercise will enable market participants to determine how banks are dealing with remaining pockets of vulnerability.

2018 EU-wide transparency exercise

In 2018, the EBA transparency exercise will be conducted along with the 2018 EU-wide stress test. The data disclosure will follow the same standards of previous years, with the exception of sovereign exposures data, which will have more granularity. Moreover, the timeline for this exercise will be set taking into account the main milestones of the stress test exercise, in order to reduce, as far as possible, the burden for banks and supervisors. The publication is expected for mid-December 2018, along with the Risk Assessment Report and interactive tools for data analysis.
Pillar 2 Roadmap and emerging risks

Technical standards on IRRBB

As set out in the EBA’s Pillar 2 Roadmap published in April 2017, the EBA is taking a progressive and transitional approach to the implementation of the updated IRRBB Standards published by the BCBS in 2016. The draft revised EBA IRRBB Guidelines reflect mainly the updated qualitative requirements on IRRBB management. The second phase of the implementation will be the revision of the CRD and CRR and the related technical standards and guidelines. Depending on the final mandates included in the revised CRD/CRR, the technical standards on IRRBB are expected to cover the standardised framework, common modelling and parametric assumptions for the purpose of the supervisory outlier test and for disclosures. The work on the technical standards is expected to start in 2018 and to finish in 2019.

Development of SREP guidelines on proportionality

The EBA will explore the possibility of further promoting proportionality in the Pillar 2 area through, for example, a simplified approach for smaller and non-complex institutions. While the existing Pillar 2 framework provides flexibility and discretion to the competent authorities to apply the principle of proportionality, more guidance on its practical application may be considered in an effort to reduce regulatory compliance burden.

Guidelines on the management of ICT risk for institutions

Following on from the positive response to the ICT risk assessment guidelines for competent authorities published in 2017, the EBA work programme for 2018 extends guidance on ICT risk to institutions. These guidelines will address the growing need for preparedness surrounding an institution’s ICT framework and will help institutions to be able to internally evaluate and mitigate the risks posed by ICT and also to be prepared for the ICT risk assessment carried out by competent authorities. The guidelines will set out supervisory expectations on ICT governance and risk management, ICT security, including cyber security, and the operational framework necessary to adequately manage an institution’s ICT risk exposure. The guidelines are expected to be published for consultation in 2018.

Third-country equivalence

In 2018, the EBA will follow up on the assessment of confidentiality provisions of third-country authorities that were initiated in 2017. It will focus, in particular, on the assessment of equivalence of supervisory and regulatory regimes of third countries. While this has no connection with the possible granting of passport-like rights for third countries, it can allow EU institutions to use risk weights applicable in the EU for specific exposures located in third countries if their regulatory and supervisory framework is assessed as EU-equivalent. This is a necessary step in the context of a single market in banking, as it will allow the EU to move towards a uniform treatment of third-country exposures by establishing a common list of third countries with EU-wide recognition.

The work on equivalence of regulatory and supervisory frameworks will also be closely linked to the possibility of entering into cooperation agreements with supervisory authorities from third countries.

Establishing the EBA’s online training platform

Following the increase in demand in 2017 for the EBA’s online courses and in line with its business plan to further extend its training activities, the EBA purchased a learning management system (LMS) to implement its online training courses in house. The new online platform for training was instrumental in re-running updates of the existing online courses on bank recovery planning and on SREP, produced in collaboration with the European University Institute (EUI), while designing and producing new modules on key risk topics, such as MREL and supervisory reporting. With its new LMS, the EBA aims to accommodate up to 500 active users per month and also reach out to the wider supervisory, regulatory and resolution networks.
The European Centralised Infrastructure for Supervisory Data (EUCLID)

One of the EBA’s highest-level priorities in 2018 is the improvement of the collection, analysis and dissemination of banks’ supervisory data. With EUCLID, the EBA is undertaking a substantial effort in extending its platform for the collection of all regular banking regulatory data such as COREP, FINREP, data on funding plans and on supervisory benchmarking of internal models.

Collecting and disseminating information for the entire population of EU banks is crucial in strengthening the EU financial system. For this, a reliable, secure and efficient platform to collect supervisory data from all EU and EEA banks is vital. It will allow supervisors to carry out deeper analyses of the banking sector, enhancing transparency and mitigating the risks for the European banking system. This project will also support the creation of a harmonised regulatory and supervisory banking framework in the Union, informing the policy decisions around the Single Rulebook.

In practical terms, EUCLID’s main objective is to expand the collection of supervisory data from the current statistical sample consisting of the 200 largest banks in the EEA to the full universe of individual banks and banking groups in the EEA. To achieve this, EUCLID relies heavily on the collaboration of the national competent authorities and on the ECB, which already collects most of these data for the Euro area. The competent authorities and the EBA are cooperating to minimise any operational burden and to avoid repeated submissions. Therefore, EUCLID’s first implementation step will be to integrate the processes for the management of the master data system and the information related to the Credit Institutions Register that the EBA is mandated to maintain under the CRD.

The EBA’s FinTech roadmap

Following the publication of the EBA’s FinTech Discussion Paper, in 2018 the EBA will publish a follow-up report assessing the responses received and setting out the roadmap for the EBA’s FinTech work in 2018 and 2019 in line with the European Commission’s Action Plan on FinTech. The EBA Roadmap will cover the following policy areas: authorisation and regulatory perimeter issues; regulatory sandboxes and innovation hubs; impact of FinTech on institutions’ business models; prudential risks and opportunities; cyber resilience; consumer and conduct issues; and AML/CFT.

The EBA will also establish a FinTech Knowledge Hub, bringing together competent authorities with a view to enabling sharing of knowledge on FinTech, enhancing engagement with financial institutions and other FinTech firms, technology providers and other relevant parties, and fostering technological neutrality in regulatory and supervisory approaches.

Report on the impact of FinTech on business models

The latest EBA Risk Assessment Report noted that upcoming competition from FinTech firms may result in changes in incumbents’ business models to ensure profitability. This appears to be approached both as a risk to revenues in some business lines, along with amplified risks in cyber and data security, and at the same time as an opportunity to rethink customer interaction, enlarge customer base and improve cost efficiencies.

In line with its FinTech Discussion Paper, the EBA will continue its work to better understand and analyse the impact of FinTech on
### 2018
- Survey issued to competent authorities, EBA analysis of responses
- Report (and if appropriate Opinion) issued
- Ongoing monitoring of the regulatory perimeter, including review of Member State responses to new and innovative financial activities and analysis of the need for changes at the EU level

### 2019
- Survey issued to competent authorities, EBA analysis of responses
- Report (and if appropriate Opinion) issued, including Guidance to enhance supervisory consistency and facilitate supervisory coordination in the operation of regulatory sandboxes
- Ongoing monitoring of developments, sharing of good practices
- Assessment of the need for further coordination/convergence work
- Ongoing monitoring of developments in line with the pace of employment of new technologies in financial services and, where appropriate, additional work to enhance supervisory consistency and facilitate supervisory coordination

### Impact on Business Models, Prudential Risks and Opportunities
- Report issued on the impact of FinTech on the business models of institutions
- Report issued on prudential risks and opportunities for institutions focussing on several use cases
- Ongoing monitoring of developments and, where appropriate, further work to ensure appropriate risk mitigation
- Regulatory mapping of current licensing requirements, prudential and conduct of business treatment

### Cybersecurity
- ICT risk guidelines addressed to institutions providing guidance for evaluating and mitigating ICT risk including cybersecurity risk
- Harmonised supervisory practices on cybersecurity
- Follow-up work in relation to EBA security-related mandates under PSD2
- Follow-up work as appropriate (e.g. cyber threat testing framework in alignment with other EU initiatives)

### Consumer and Conduct Issues
- Report issued on cross-border issues identifying potential national barriers from consumer and conduct of business requirements
- Report issued on consumer-related disclosure aspects
- Consideration of consumer and conduct of business related aspects in the context of the authorisation/perimeter work
- Assessment of potential financial exclusion (from Big Data algorithms)
- Assessment of the applicability of the ADR Directive to FinTech firms and further actions if needed
- Follow-up work as appropriate

### AML/CFT
- Fact-finding exercise ML/TF risk associated with FinTech solutions and providers
- Amended Risk Factors Guidelines issued
- Joint Opinion issued on the ML/TF risks affecting the EU’s financial sector
- Ongoing monitoring of developments and assessment of the need for further work
- Ensuring the harmonisation of supervisory practices through various knowledge sharing initiatives

### Virtual Assets
- Regulatory mapping of current licensing requirements, prudential and conduct of business treatment
- Ongoing monitoring of developments and, where appropriate, further work to ensure appropriate risk mitigation

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**Figure 13: EBA FinTech Roadmap - indicative timeline**
incumbents’ business models. This work intends to cover (i) the current and prospective relationships between incumbents, new players and FinTech firms, (ii) the potential threats to the viability of traditional business models as well as the sustainability of strategies of the incumbents in view of FinTech developments and (iii) the adapted and new business models emerging in the financial sector as a result of the development of FinTech.

This work will initially take the form of a thematic report, which is planned to be released in 2018. Its aim is to provide an overview of the current landscape across the internal market and of the key trends observed in relation to the reshaping of the current business models stemming from technological innovation.

Risks and opportunities of FinTech for institutions

In line with its FinTech Discussion Paper, the EBA will be working on the identification and assessment of prudential risks and opportunities for credit institutions, payment institutions and electronic money institutions stemming from the use of innovative new technologies. The approach to be followed is selecting a number of ‘use cases’ where financial technologies are applied, or considered to be applied, for example by credit institutions in order to replace existing banking activities, processes and procedures, and secondly, analysing the respective prudential risks and opportunities.

A thematic report is planned to be published in 2018, which will focus on the prudential risks and opportunities to institutions stemming from the use of new technologies in the financial sector.

Implementing new rules on payment services

The EBA will also finalise and publish the Guidelines on fraud reporting in 2018. The EBA is developing them in close cooperation with the ECB, to ensure that the high-level fraud reporting requirements under PSD2 are implemented consistently among Member States and that the aggregated data provided by competent authorities to the EBA and the ECB are comparable and reliable.

Enhancing convergence in supervisory practices to protect consumers

The EBA will continue work on the EBA Guidelines on POG, focusing on practical industry examples of the application of the POG guidelines when developing a new or significantly changed product before it is brought to market, and will then expand to other legal instruments, including the technical standards under PAD. Further areas may be considered and prioritised.

Engaging with resolution authorities

For 2018, the EBA will continue to support resolution planning and preparedness in the EU through its participation in a selection of resolution colleges and bilateral engagement with resolution authorities. Participation in colleges will remain a key mechanism for (i) gathering information on the practical application of the BRRD and on progress in resolution planning and preparedness in Europe and (ii) providing resolution authorities with assistance in reaching joint decisions with respect to every aspect of resolution planning. The EBA will continue to contribute to colleges, providing specific feedback to GLRAs and through the preparation of an annual report summarising main trends, good practices and areas of attention. Following a positive and fruitful engagement last year, the EBA will also continue bilateral engagement with selected resolution authorities where it will focus on key aspects of practical implementation and entail in-depth discussions on specific thematic areas, including through the use of case studies or subject deep-dives.
Ensuring effective and transparent processes to support the EBA’s work

Involving stakeholders in the EBA’s regulatory work

The EBA adheres to a policy of full transparency of its working processes and strives to ensure that it engages with all CAs, stakeholders and interested parties, so that they are informed of, and have the opportunity to provide input to, the EBA’s work, especially in relation to the Single Rulebook.

The EBA is strongly committed to consulting with various stakeholders to ensure that the Authority is able to take well-informed decisions and submit elaborated proposals that take into consideration stakeholders’ interests. A key part of this engagement with stakeholders is through the Banking Stakeholder Group (BSG). The BSG’s view is sought on actions concerning RTS and ITS, guidelines and recommendations, to the extent that these do not concern individual financial institutions. Moreover, the BSG provides the EBA with its view on the assessment of market developments, which feeds into the EBA’s banking risk reports. The EBA also seeks the BSG’s thoughts on emerging risks for consumer protection, financial innovation and payments.

The BSG may also submit opinions and advice on any issue related to the tasks of the EBA, with particular focus on common supervisory culture and peer reviews of CAs. The BSG may also submit a request to the EBA, as appropriate, to investigate an alleged breach or non-application of Union law.

The BSG has provided its input through responding to the EBA’s public consultations as well as by providing informal feedback and contributions to the EBA’s work on technical standards and guidelines. In 2017, the BSG provided opinions on six Consultation Papers, including one submission to a Joint Committee Consultation Paper, and three responses to Discussion Papers, including one submission to a Joint Committee Discussion Paper. The BSG, together with the ESMA’s Securities and Markets Stakeholder Group, provided its opinion on a set of joint EBA and ESMA Guidelines.

On 22 June 2016, the BSG elected Santiago Fernández de Lis, Head of Financial Systems and Regulation at Banco Bilbao Vizcaya Argentaria (BBVA), as its Chairperson, and Alin Iacob, Managing Partner of the Association of Romanian Financial Services Users, as Vice-Chairperson.

The BSG has 30 members. The mandate of one finished in 2017 and was renewed, in the category of ‘credit and investment institutions’. Two new members were appointed, one representing the category of ‘SMEs’, and the other in the category of ‘credit and investment institutions’, sub-category ‘cooperative and savings banks’. In doing so, the EBA carried out a transparent selection process from the original list of applicants to the third term of the BSG, seeking to ensure adequate balance between EU Member States, represented entities and members’ gender, in line with the Ombudsman’s requirements. The other 27 members continued their mandates. Of them, 19 are due to finish the first two-and-a-half-year term of their mandate in 2018, and 6, who were appointed in the course of the second term of the BSG, should complete their second consecutive two-and-a-half-year mandate in 2018.

The BSG maintained its five standing technical working groups, on (i) capital and risk analysis, (ii) recovery, resolution and systemic issues, (iii) consumer protection, (iv) supervision, governance, reporting and disclosure, and (v) payments, digital and FinTech.

In 2016, the BSG held five regular meetings and two joint meetings with the EBA’s BoS. In addition, some BSG members have been actively involved in other activities of the EBA, e.g. as speakers at the Joint ESA Consumer Protection Day in June 2017 or as discussants at the EBA’s research workshop, ‘The future role of quantitative models in financial regulation’, in November 2017. The BSG also published its position paper on ‘regulatory sandboxes’ in July 2017 and submitted its contributions to the European Commission’s Review of the ESAs in May 2017 and to the Commission’s Consultation on Transparency and Fees in EU Cross-Border Transactions in October 2017.
With the aim of ensuring that input to the EBA’s work is gathered from all interested parties and from all relevant stakeholders, beyond the BSG, stakeholders are invited to submit their comments to public consultations, and participate in public hearings, which take place regarding the EBA’s draft technical standards and guidelines. In addition, the EBA has followed the practice of sometimes hosting bilateral meetings with representatives of some industry trade associations, consumers and employees, predominantly for specific technical considerations to assist its policy-making.

Settling disagreements between competent authorities by binding or non-binding mediation

One of the tasks of the EBA is to provide an environment where competent authorities can solve their disagreements. In order to be able to execute this task, the EBA Regulation lays down two different procedures to help the competent authorities to overcome their disputes: binding mediation and non-binding mediation.

Binding mediation has been designed as a two-stage process. During the first stage, the role of the EBA is limited to that of an independent mediator who brings two parties to the table in order to understand their concerns that led to their disagreement. During this conciliation period, the parties are encouraged to find an amicable solution, which would end their dispute. If the parties concerned are not able to overcome their problems, the role of the EBA changes to that of an arbiter who is to take a decision requiring the parties to take specific action or to refrain from any action in order to settle their disagreement. The decision is binding on the parties concerned. The power of the EBA to solve a disagreement between competent authorities by binding mediation is limited to cases specified by Union law.

Non-binding mediation represents the classical mediation, whereby the EBA acts as an impartial third party that listens to the competent authorities and asks questions to understand their positions, their real needs and their understanding of the other side’s position. During this process, the EBA does not impose solutions or even find them for the parties.

The EBA has a mandate to assist competent authorities in resolving disputes and disagreements related to supervision and resolution of cross-border banks. Thus, as well as applying the mediation skills themselves, supervisors may also ask the EBA to mediate in their dispute. The disagreement can be about anything, but the main topics the EBA has dealt with so far are joint decisions, such as on capital requirements, liquidity, recovery and resolution planning, and supervisory measures. For example, the EBA has helped resolve disputes about the need for ring-fencing measures imposed by host authorities, and about supervisory cooperation.

Starting mediation is straightforward. Supervisors just need to contact the EBA, stating what the disagreement is about and who else is involved. In the case of binding mediation, provisions of different acts of Union law stipulate deadlines by which one of the parties has to contact the EBA. Should the supervisor miss the deadline, the EBA may offer its services only in the form of non-binding mediation, thus without the possibility of imposing a binding decision in the absence of an agreement.

Following a request for support, the EBA will bring the parties together, including supervisors and senior representatives, with the EBA Chairperson acting as mediator. By exploring the situation with the parties, separately and jointly, the EBA helps find a solution that works for everyone.

The whole process is confidential. Only the parties and a small EBA team know the details of the dispute and of discussion during the mediation. The EBA has helped in several binding and non-binding mediations where the parties solved complex supervisory disputes that had been going on for years, just by organising a 1-day meeting. It is recommended to contact the EBA for assistance early in the process, before positions get too hard, so that the EBA can help find a solution that meets everyone’s needs and maintain a strong working relationship.

In order to raise awareness among competent authorities about the mediation process, the EBA organised, in March 2017, a mediation workshop at the EBA premises and, in November 2017, a mediation training course for the Single Resolution Board (SRB) staff in Brussels.
Figure 14: How the EBA carries out mediation

DISAGREEMENT

An Authority sends a request to the EBA to launch a mediation

EBA performs admissibility test

Non-admissible: no mediation

Admissible: mediation starts

EBA Chairperson proposes to launch an own-initiative mediation

EBA Alternate Chairperson is informed

No objections are raised: mediation starts

Chairperson raises objections

Chairperson consults the Mediation Panel

Decision not to start mediation

EBA Chairperson conciliates

Parties settle their disagreement amicably

The Mediation Panel is involved

The Mediation Panel may summon the parties and relevant experts

The Mediation Panel reports to BoS without adopting a decision

The Mediation Panel proposes a decision

BoS adopts decision

BoS rejects decision

EBA Chairperson conciliates

Parties are not able to settle their disagreement

The Mediation panel is involved

The Mediation Panel may summon the parties and relevant experts

The Mediation Panel reports to BoS without adopting a decision

The Mediation Panel proposes a decision

BoS adopts decision

BoS rejects decision

Parties settle their disagreement amicably

Parties are not able to settle their disagreement

The Mediation Panel is involved and may provide the parties with its informal view

The Mediation Panel informs the BoS and may propose an opinion or recommendation

The BoS may adopt the proposed opinion or recommendation

Parties settle their disagreement

Parties still do not settle their disagreement

The Mediation Panel informs the BoS and may propose an opinion or recommendation

The BoS may adopt the proposed opinion or recommendation

Parties settle their disagreement

- Binding cases are based on EU legislation
- On resolution matters, the BoS, subject to its objection, delegates the adoption of the draft decision to the Resolution Committee
In 2017, the EBA performed one binding mediation, in which the problem was solved by an amicable agreement of the parties involved during the conciliation stage, and one non-binding mediation, which also ended with an agreement of the parties concerned. Both cases focused on topics in the area of resolution planning.

**Breach of Union law (BUL)**

The EBA’s founding Regulation provides for the possibility of opening an investigation where a competent authority has not applied relevant Union law or has applied it in a way that appears to be a breach of Union law (BUL). The principal consequence of an investigation that finds a breach is that the EBA addresses a recommendation to the competent authority with the aim of correcting the breach.

In 2017, the EBA received 13 requests to investigate alleged breaches or non-application of Union law, which is the highest number since the EBA initiated its activities. One of the requests was submitted by the European Commission (Directorate-General for Justice and consumers), while the other 12 came from market participants.

From a thematic perspective, the main issues raised in the 2017 requests were anti-money laundering and consumer protection in relation to mortgage credit arrangements, with four requests on each of these matters. The Payment Accounts Directive was the subject of two requests. The other requests related to prudential requirements, conduct of business and governance of credit institutions. The subject-matter of the 13 requests does not seem to continue the trends identified in previous years, and what may be noted is the increase in the number of requests concerning anti-money laundering.

At the beginning of 2018, 13 requests were open, one submitted in 2016 and the others in 2017. Nine requests were closed during 2017. Three (one submitted in 2016 and two in 2017) were closed on the basis that they were inadmissible, since they set out grievances which were outside the scope of the EBA’s remits.

A separate 2016 request was closed, after a preliminary enquiry, without opening an investigation, as it was concluded that it did not appear to involve a breach of Union law.

Another case submitted in 2016 was closed without opening an investigation, on the basis that it was considered, according to the criteria for whether or not to open investigations under the EBA’s procedure, more suitable to be dealt with by the relevant judicial authorities.

A separate request submitted to the EBA in 2016 by members of the European Parliament in relation to the ‘fit and proper’ requirement was closed following preliminary enquiries and without opening an investigation because of the measures adopted by the competent authorities and developments in the circumstances of the case, but with several suggestions being addressed to the competent authority in relation to the case.

At the beginning of 2017, only one request submitted in 2015 remained open. This case was declared admissible and the Chairperson decided to open an investigation, with the agreement of the Alternate Chairperson. The case proceeded to the BUL Panel, which closed the case without making an Article 17 recommendation, in the light of the decisions taken by the competent authority after receiving the notification.

As mentioned in the 2016 Annual Report, the Board of Supervisors modified its Decision adopting Rules of Procedure for Investigation of Breach of Union Law. The new Decision was applied in 2017 with a very positive outcome in terms of effectiveness.
Conducting peer reviews

The EBA uses another tool to promote consistency in supervisory outcomes, namely peer review exercises. In accordance with Article 30 of the EBA Regulation, the EBA conducts regular peer reviews, which are carried out by the EBA’s Review Panel, using a peer review methodology agreed by the EBA’s BoS in June 2012.

The peer reviews look to assess how relevant authorities implement the EBA’s regulatory products, but also to evaluate the adequacy of their resources and governance arrangements and the degree of convergence in the application of their supervisory practices. When reviewing the relevant authorities’ supervisory practices, the peer reviews seek to identify best practices. Peer reviews may also lead the EBA to issue changes to existing guidelines and recommendations, may inform technical standards under development and may result in the EBA submitting an opinion to the European Commission when the peer review shows that a legislative initiative is necessary to ensure greater harmonisation.

In 2017, the Review Panel conducted a peer review of the Guidelines on the criteria to determine the conditions of application of Article 131(3) of Directive 2013/36/EU (CRD) in relation to the assessment of O-SIIs. The final peer review report was approved by the EBA’s BoS in November 2017, and subsequently published.

This peer review exercise revealed that relevant authorities were largely compliant with the EBA Guidelines. Best practices were identified in several areas with regard to the application of the O-SIIs identification methodology, using a two-stage approach through mandatory indicators and additional criteria with a view to capturing all possible systemic risks. In procedural terms, some relevant authorities also developed a comprehensive set of information to be distributed to institutions and other authorities related to the identification process. However, the Review Panel also identified some room for harmonisation regarding notification obligations, the use of optional indicators or areas such as a common treatment of branches (either EEA or non-EEA).

The Review Panel also identified an area where greater harmonisation might be valuable for the whole EU. The calibration of the O-SIIs buffer pursuant to Article 131(5) of the CRD, albeit not stricto sensu in the scope of this peer review exercise, was regarded as a critical issue. The EBA considered that greater harmonisation in this area might be highly valuable, as the peer review identified inconsistencies in the application of the calibration methodology by the relevant authorities.

At its meeting in October 2017, the BoS decided to launch a peer review of the RTS on passport notifications.

Assessing costs and benefits

The EBA applies the principle of better regulation in its efforts to develop the Single Rulebook, and strives to ensure that it performs impact assessments to support the EBA’s development of regulatory policy.

In line with the relevant provisions of the EBA’s Regulation, the EBA duly performs impact assessments when developing the technical standards, guidelines, recommendations and opinions, by assessing the incremental costs and benefits of the various policy options/technical specifications of its proposals. This work includes undertaking quantitative impact studies, analysing individual and aggregate banking data, assessing appropriate methodologies for using such data and also performing qualitative analysis, and considering, where appropriate, the proportionality implications of its proposals.

The role of impact assessment at the EBA extends beyond the policy development phase, as it also applies to the monitoring of the implementation of particular pieces of banking regulation, including, where appropriate, the application of relevant regulatory and implementing technical standards (drafted by the EBA) and adopted by the Commission, and of the guidelines and recommendations issued by the EBA. One such product is the CRD IV-CRR/Basel III monitoring exercise, the EBA’s semi-annual analysis of the impact of CRD IV-CRR/Basel III rules on European credit institutions’ capital, liquidity and leverage ratios and the estimated shortfalls relating to the lack of convergence with the fully implemented framework. In 2017, the EBA published two regular reports on monitoring the impact of the implementation of CRD IV/CRR requirements in the EU: in March for data as at June 2016, and in September for data as at December 2016. In addition, the EBA conducted and published a cumulative ad hoc
impact assessment report to evaluate the effect of the final Basel III reform package on EU banks. The cumulative ad hoc impact assessment report contains a breakdown of the impact on the total minimum required capital that arises from credit risk (internal ratings based approach and standardised approach), operational risk, leverage ratio reforms and the output floor of 72.5%.

In 2017, the EBA continued to collect data to monitor the impact of implementing the latest proposals on MREL, a report on liquidity measures under Article 509(1) of the CRR.

Maintaining the Interactive Single Rulebook

Since its inception in 2014, the Interactive Single Rulebook (ISRB) has grown into a comprehensive compendium for three key legislative texts for banking supervision within the EBA’s remit, the CRR/CRD IV, the BRRD and the DGSD. For the legislative frameworks covered, the ISRB offers a resource where stakeholders can find links from the articles of Level 1 texts to their associated technical standards or guidelines, as well as Q&A’s relating to the corresponding Level 1 provisions[4].

The Single Rulebook Q&A’s contribute to the ISRB by providing guidance for the consistent application and implementation of the regulatory framework across the EU Single Market. The questions submitted by CAs, institutions and their associations, as well as other stakeholders, follow a thorough due process involving the EBA, competent authorities and the European Commission, ultimately facilitating clarifications on CRD IV, the CRR, the BRRD and the DGSD as well as related delegated or implementing acts, EBA Regulatory Technical Standards, EBA Implementing Technical Standards (adopted by the European Commission) and EBA guidelines. The Q&A tool’s significance is reflected by the fact that in 2017 (as in previous years) the Q&A section was the most visited section of the EBA website.

By 31 December 2017, around 3,650 questions (compared with 3,075 at the end of 2016) had been submitted via the dedicated Q&A tool on the EBA’s website[5]. Of these, about 1,360 were rejected or deleted (up from about 1,120 at the end of 2016), about 1,380 were answered (up from about 1,110 at the end of 2016) and about 910 were under review (up from about 845 at the end of 2016). Of the questions under review, about 100 were on the BRRD and about

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[4] In 2017, the EBA also extended the Q&A tool to cover limited aspects of EMIR and the Central Securities Depositories Regulation (CSDR). More specifically the tool now enables questions on the RTS on risk-mitigation techniques for OTC derivative contracts not cleared by a CCP (RTS 2016/2251 on bilateral margining). As these RTS were jointly developed by the ESAs, a joint process relying as much as possible on existing processes within each ESA for dealing with related questions from stakeholders was established. In addition, the EBA Q&A Tool has been extended to the CSDR Delegated Regulation and its RTS on prudential requirements of Central Securities Depositories (RTS 2017/390).


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5 on the DGSD. The remaining 805 Q&As were on the CRR-CRD, with the majority (about three quarters) focusing on reporting issues, followed by questions on credit risk, liquidity risk, own funds and market risk-related issues (see Figures 16 and 17).

Providing legal support to the EBA’s work

Throughout 2017, 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 has 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 as well as by facilitating the resolution of disputes.

In relation to the EBA’s institutional setting, legal support was given on matters related to the negotiation and drafting of contracts, undertakings and agreements that the EBA entered into; 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 has worked to enhance good administrative practices.

Working to protect personal data

Given its responsibility for data protection in accordance with Regulation (EC) No 45/2001, the EBA liaised with the office of the European Data Protection Supervisor (EDPS) and submitted to the EDPS numerous notifications of processed operations. In 2017, the designated officers within the EBA promoted the importance of data protection issues with the EBA staff, especially by raising the importance of data protection during induction sessions organised for new joiners. The designated officers actively participated in the meetings of the EU data protection network.

Litigation cases in 2017

In 2017, the Legal Unit provided advice and assistance in a number of litigation cases. These included Case T-229/15 European Dynamics and others (ED) v European Banking Authority (EBA):

The applicant (ED) lodged its action at the Registry of the Court on 4 May 2015. The applicant asked the General Court to:

• annul the decision by which the EBA rejected the applicants’ tender with respect to Lot 1 within the framework of the restricted tendering procedure 2014/S 158 283576 (EBA/2014/06/OPS/SER/RT), titled ‘Supply of interim staff, Lot No 1: Supply of interim staff for Information Technology’;
• order the EBA to compensate the applicants for the loss of the opportunity to be ranked in first place in Lot 1 of the EBA/2014/06/OPS/SER/RT framework agreement; and
• order the EBA to pay the applicants’ costs in full.

The EBA asked the General court to:

• dismiss the action;
• order the applicant to pay the defendants’ cost in full.
Delivering digital services to support the EBA's core functions and its internal administration

Despite the very demanding year and the numerous challenges, in 2017 the IT team ensured stable business operation and accurate project deliveries.

The European Supervisory Platform (ESP), one of the EBA’s core platforms, was further developed with two releases, aligning with the new versions of Data Point Model (DPM), enhancing the Master Data Management (MDM) engine and adding Romania into the A2A connectivity.

Early in 2017, the EBA initiated the ambitious EUCLID project (see Section ‘The European Centralised Infrastructure for Supervisory Data (EUCLID)’). The vision that drives the programme is to take advantage of the sample expansion to upgrade the EBA's existing supervisory information systems into a new integrated infrastructure of supervisory data with the aim of governing, organising, managing and using information through common practices, methodologies, infrastructures and tools. With EUCLID, the quality of information will be increased, the operational data will be better managed and the reporting burden of reporting agents will be reduced, avoiding duplications of data requests.

IT experts have been involved in the EUCLID project since its inception, first in formulating the project vision, then in defining the high-level requirements and the conceptual architecture of the system, and later in the detailed analysis of the new MDM system, and in the preparation of its Project Charter, which was approved in late 2017. The solution strategy is based on four key pillars: modular data-driven architecture, metadata-driven design, leverage of existing core solutions and reliance on in-house expertise. The objectives in mind are the development of flexible and resilient technical solutions for the EBA’s core business processes, which, besides addressing the current requirements of EUCLID, may also be extended to other domains of a similar nature, as needed, without the EBA incurring new major investments, or being heavily dependent on third parties.

Several other projects were successfully delivered in 2017, such as the expansion of the eGate platform to new data providers, with additional notifications forms and new security model. The Data Analytics project created a new capability for the EBA: users were given a technology platform to run easy-to-use, self-service business analytics in specific areas of interest (NPPL, credit risk, market risk, funding plans, etc.).

Various aspects of the IT infrastructure have been improved, including greater availability of our database and application platform, resource usage optimisation, increased security and new DevOps processes.

Communicating and promoting the EBA’s work

In 2017, the EBA undertook several tasks in order to promote its publications and support the delivery of its main projects. In total, 162 news items and press releases were published in 2017. In terms of external visibility, the key publications, which attracted a lot of external attention, were the paper on the proposal for an AMC by Piers Haben and Mario Quagliariello; the 2016 EBA Annual Report; the Report on the second impact assessment of IFRS 9; the Opinion on Brexit; PSD2-related products; and the annual transparency exercise results.

Several background and on-the-record briefings with the press were organised to ensure there was clear understanding of the EBA’s work. Media briefings and interviews were organised either reactively or proactively, on the basis of the EBA’s outputs which, in the light of specific relevance or sensitivity, were deemed to require dedicated media activities. This was particularly the case for the high earners report, the second impact assessment of IFRS 9 report, the funding plans report, the Opinion on Brexit and, of course, the EBA’s relocation.

The publication of a quarterly Communications Newsletter strengthened the EBA’s engagement with its network of national press officers and other EU stakeholders. A shorter version of the Communication Newsletter was also produced for the media and the general public and published under the Press section.
of the EBA website. The primary aim of this version of the newsletter is to help the media across the EU plan ahead of publication of EBA products, as well as to facilitate the press work of the EBA.

The EBA social media accounts continued to generate more and more attention. As of 8 January 2018, the Twitter account reached 6,607 followers – an increase of 1,105 followers in just one quarter. During that time, the most notable activity was generated by the announcement of the EBA’s relocation to Paris. The EBA LinkedIn account also grew considerably in 2017. The number of page views grew significantly over the year and the impressions peaked in July (225,315), following the publication of several vacancy notices and regulatory products, such as an IFRS 9 report and a video and report on funding plans.

As part of an effort to improve internal communications, a monthly electronic newsletter for internal staff was launched in April 2017.

In line with the EBA Management Board’s decision to translate all EBA guidelines and recommendations into all the EU official languages, in 2017 the EBA shared 20 translated products for review and quality check with its National Editors Network.

Throughout the year, the EBA website registered regular numbers of visits, between 8,000 and 15,000 visits a weekday. In total, the website received 2.86 million visits in 2017 (+2.69% in comparison with 2016), corresponding to over 9 million page views (+1.91%). The end of the year saw an increase in the number of visitors as a result of two major events in November: the decision on the EBA’s new host country and the release of the transparency exercise. Geographically, the numbers are similar to the ones in 2016, with the highest concentration of visits coming from the UK (19%), followed by Germany (13%) and Italy (7.5%).
Annexes

EBA organisational structure

Composition as of 31 December 2017.
## Board of Supervisors

### VOTING MEMBERS

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<td>Austria</td>
<td>Österreichische Finanzmarktaufsicht</td>
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<td>Spain</td>
<td>Banco de España</td>
<td>Head</td>
<td>Jesús Saurina Salas</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Alternate</td>
<td>Alberto Ríos Blanco</td>
</tr>
<tr>
<td>Sweden</td>
<td>Finansinspektionen</td>
<td>Head</td>
<td>Martin Norløs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Alternate</td>
<td>Björn Baigholtz</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Bank of England’s Prudential Regulation Authority</td>
<td>Head</td>
<td>Sam Woods</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Alternate</td>
<td>Sasha Mills</td>
</tr>
</tbody>
</table>

**EEA EFTA MEMBERS**

<table>
<thead>
<tr>
<th>EEA EFTA MEMBER</th>
<th>INSTITUTION</th>
<th>MEMBERSHIP</th>
<th>NAME</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iceland</td>
<td>Fjármálaættútlitn</td>
<td>Member</td>
<td>Jon Thor Sturluson</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Alternate</td>
<td>Sigurdur Frey Jonatansson</td>
</tr>
<tr>
<td>Liechtenstein</td>
<td>Finanzmarktaufsicht Liechtenstein (FMA)</td>
<td>Member</td>
<td>Patrick Bent</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Alternate</td>
<td>Heinz Konzett</td>
</tr>
<tr>
<td>Norway</td>
<td>Finanstilsynet</td>
<td>Member</td>
<td>Morten Baltzersen</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Alternate</td>
<td>Emil Steffensen</td>
</tr>
<tr>
<td>–</td>
<td>EFTA Surveillance Authority</td>
<td>Member</td>
<td>Frank Büchel</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Alternate</td>
<td>Gunnar Thor Pétursson</td>
</tr>
</tbody>
</table>

**OBSERVERS**

<table>
<thead>
<tr>
<th>OBSERVER</th>
<th>NAME</th>
</tr>
</thead>
<tbody>
<tr>
<td>SRB</td>
<td>Dominique Laboureix</td>
</tr>
</tbody>
</table>

**OTHER NON-VOTING MEMBERS**

<table>
<thead>
<tr>
<th>INSTITUTION</th>
<th>NAME</th>
</tr>
</thead>
<tbody>
<tr>
<td>ESMA</td>
<td>Verena Ross</td>
</tr>
<tr>
<td>EIOPA</td>
<td>Fausto Parente</td>
</tr>
<tr>
<td>ECB Supervisory Board</td>
<td>Korbinian Ibel</td>
</tr>
<tr>
<td>European Commission</td>
<td>Olivier Guersen</td>
</tr>
<tr>
<td>ESRB</td>
<td>Francesco Mazzaferru</td>
</tr>
</tbody>
</table>
Management Board

In accordance with the EBA’s founding Regulation, the Management Board should ensure 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 and a representative of the Commission also participate in its meetings.

Following the resignations of the members from the Czech competent authority in January 2017 and the Spanish competent authority in June 2017, the Board of Supervisors elected two new members, representing the Belgian and Swedish competent authorities, to join the Management Board as of 3 May and 27 June 2017 respectively. At end December 2017, the Management Board was composed of three members from participating SSM Member States (Belgium, France and Italy) and three members from non-participating SSM Member States (Denmark, Poland and Sweden). This composition was deemed by the Board of Supervisors to be in line with the requirements of balanced and proportionate representation as set out in the EBA’s founding Regulation, reflecting the Union as a whole.

To guarantee the transparency of the Management Board’s decision-making, the minutes of its meetings are published on the EBA website immediately after they are approved. In 2017, the Management Board met five times at the EBA premises in London.

COMPOSITION AS AT END 2017

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>INSTITUTION</th>
<th>MEMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>Finanstilsynet</td>
<td>Jesper Berg</td>
</tr>
<tr>
<td>Belgium</td>
<td>Banque Nationale de Belgique/Nationale Bank van België</td>
<td>Jo Swyngedouw</td>
</tr>
<tr>
<td>France</td>
<td>Autorité de Contrôle Prudentiel et de Résolution</td>
<td>Édouard Fernández-Bolílo</td>
</tr>
<tr>
<td>Italy</td>
<td>Banca d’Italia</td>
<td>Luigi Federico Signorini</td>
</tr>
<tr>
<td>Poland</td>
<td>Komisja Nadzoru Finansowego</td>
<td>Andrzej Reich</td>
</tr>
<tr>
<td>Sweden</td>
<td>Finansinspektionen</td>
<td>Martin Noréus</td>
</tr>
<tr>
<td>–</td>
<td>European Commission</td>
<td>Olivier Guersent</td>
</tr>
<tr>
<td>–</td>
<td>European Banking Authority</td>
<td>Andrea Enria</td>
</tr>
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</table>
## Banking Stakeholder Group

<table>
<thead>
<tr>
<th>Member</th>
<th>Selected to Represent</th>
<th>Institution</th>
<th>Position</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dominic Lindley</td>
<td>Consumers</td>
<td>Independent</td>
<td>Independent consultant</td>
<td>UK</td>
</tr>
<tr>
<td>Phyne Michael</td>
<td>Consumers</td>
<td>Cyprus Consumers Association</td>
<td>Chair of the Board of the Cypriot Consumers Association</td>
<td>CY</td>
</tr>
<tr>
<td>Martin Schmalzried</td>
<td>Consumers</td>
<td>COFACE – Confederation of Family Organisations in the EU</td>
<td>Senior Policy and Advocacy Officer</td>
<td>CZ</td>
</tr>
<tr>
<td>Mike Dailly</td>
<td>Consumers</td>
<td>Govan Law Centre</td>
<td>Chief Executive/Principal Solicitor</td>
<td>UK</td>
</tr>
<tr>
<td>Anne Fily</td>
<td>Consumers</td>
<td>FinanceWatch</td>
<td>Executive Director</td>
<td>FR</td>
</tr>
<tr>
<td>Dermott Jewell</td>
<td>Consumers</td>
<td>Consumers’ Association of Ireland</td>
<td>Policy and Council Advisor</td>
<td>IE</td>
</tr>
<tr>
<td>Michel Bilger</td>
<td>Credit institutions</td>
<td>Credit Agricole</td>
<td>Head of Regulation and Supervision</td>
<td>FR</td>
</tr>
<tr>
<td>Santiago Fernández De Lis</td>
<td>Credit institutions</td>
<td>BBVA</td>
<td>Chief Economist, Financial System and Regulation</td>
<td>ES</td>
</tr>
<tr>
<td>Simon Hills</td>
<td>Credit institutions</td>
<td>UK Finance</td>
<td>Executive Director, Prudential</td>
<td>UK</td>
</tr>
<tr>
<td>Søren Holm</td>
<td>Credit institutions</td>
<td>NyKredit</td>
<td>Group Managing Director</td>
<td>DK</td>
</tr>
<tr>
<td>Gerda Holzinger-Burstaller</td>
<td>Credit institutions</td>
<td>Erste Group AG</td>
<td>Deputy head of Group Secretariat and head of Prudential Affairs</td>
<td>AT</td>
</tr>
<tr>
<td>Sergio Lugaresi</td>
<td>Credit institutions</td>
<td>Italian Banking Association (ABI)</td>
<td>Consultant and Project Manager</td>
<td>IT</td>
</tr>
<tr>
<td>Sabri Thaer</td>
<td>Credit institutions</td>
<td>Electronic Money Association</td>
<td>Chief Executive Officer</td>
<td>UK</td>
</tr>
<tr>
<td>Ernst Eichenseher</td>
<td>Credit institutions</td>
<td>Unicredit</td>
<td>Head of Credit Risk Control &amp; Economic Capital</td>
<td>DE</td>
</tr>
<tr>
<td>Hervé Guider</td>
<td>Credit institutions</td>
<td>EACB</td>
<td>Managing Director</td>
<td>FR</td>
</tr>
<tr>
<td>Sabine Masuch</td>
<td>Credit institutions</td>
<td>Association of Private Bausparkassen</td>
<td>Legal Consultant and head of the Ombudsman Office</td>
<td>DE</td>
</tr>
<tr>
<td>Mark Roach</td>
<td>Employees</td>
<td>ver.di – vereinte Dienstleistungsgewerkschaft</td>
<td>Trade Union Officer</td>
<td>DE</td>
</tr>
<tr>
<td>Jesper Bo Nielsen</td>
<td>Employees</td>
<td>Danish Financial Services Union</td>
<td>Chief Regulatory Officer</td>
<td>DK</td>
</tr>
<tr>
<td>Nikolaos Daskalakis</td>
<td>SMEs</td>
<td>Hellenic Confederation of Professionals, Craftsmen &amp; Merchants (GSEEVEE)</td>
<td>Representative of the association</td>
<td>EL</td>
</tr>
<tr>
<td>Razvan Antemir</td>
<td>SMEs</td>
<td>European eCommerce and Omni Channel Trade Association (EMOTA)</td>
<td>Director Government Affairs</td>
<td>RO</td>
</tr>
<tr>
<td>Angel Beiges</td>
<td>Top-ranking academics</td>
<td>Universidad Autonoma de Madrid</td>
<td>Professor of Finance</td>
<td>ES</td>
</tr>
<tr>
<td>Luigi Guiso</td>
<td>Top-ranking academics</td>
<td>Einaudi Institute for Economics and Finance and University of Rome Tor Vergata</td>
<td>Professor of Household Finance</td>
<td>IT</td>
</tr>
<tr>
<td>Monika Marcinkowska</td>
<td>Top-ranking academics</td>
<td>University of Łódź</td>
<td>Professor of Finance</td>
<td>PL</td>
</tr>
<tr>
<td>Peter-Otto Muehlert</td>
<td>Top-ranking academics</td>
<td>University of Mainz</td>
<td>Professor of Law</td>
<td>DE</td>
</tr>
<tr>
<td>Giovanni Petrella</td>
<td>Top-ranking academics</td>
<td>Catholic University, Milano</td>
<td>Full Professor of Banking</td>
<td>IT</td>
</tr>
<tr>
<td>Emílias Avgouleas</td>
<td>Top-ranking academics</td>
<td>University of Edinburgh</td>
<td>Full Professor of International Banking Law and Finance</td>
<td>EL</td>
</tr>
<tr>
<td>Alin Iacob</td>
<td>Users of banking services</td>
<td>Association of Romanian Financial Services Users</td>
<td>Managing Partner and Editor-in-Chief</td>
<td>RO</td>
</tr>
<tr>
<td>Christophe Nijdam</td>
<td>Users of banking services</td>
<td>Independent</td>
<td>Independent consultant</td>
<td>FR</td>
</tr>
<tr>
<td>Guillaume Prache</td>
<td>Users of banking services</td>
<td>Better Finance</td>
<td>Managing Director</td>
<td>FR</td>
</tr>
<tr>
<td>Giedrius Steponkus</td>
<td>Users of banking services</td>
<td>Board of Lithuanian Shareholders Association</td>
<td>Founder and chairman of the Board of Lithuanian Shareholders Association</td>
<td>LT</td>
</tr>
</tbody>
</table>
**Budget summaries**

The amended budget for 2017 is published in the *Official Journal* of the EU(*).  

**Regulatory compliance of guidelines and recommendations**

In accordance with the EBA Regulation (Article 16(4)), this section comments on competent or resolution authorities that have not complied with guidelines and recommendations issued by the EBA.  

The following non-compliance reflects guidelines and recommendations issued in 2016 and 2017, for which the notification deadline was in 2017.

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**EBA/GL/2016/05 – Guidelines on communication between competent authorities supervising credit institutions and the statutory auditor(s) and the audit firms carrying out the statutory audit of credit institutions – Compliance Notification Deadline – 9 January 2017**

a) Sweden – Finansinspektionen (Swedish Financial Supervisory Authority): does not comply and does not intend to comply.

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**EBA/GL/2016/06 – Guidelines on remuneration policies and practices related to the sale and provision of retail banking products and services – Compliance Notification Deadline – 13 February 2017**

a) Denmark: does not comply and does not intend to comply.

b) Finland – The Regional State Administrative Agency of Southern Finland (RSAASF): does not comply and does not intend to comply.

c) United Kingdom – Prudential Regulation Authority (PRA): not applicable.

d) ECB: not applicable.

e) United Kingdom – Financial Services Commission (Gibraltar): no comments.

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To date, the compliance table has not yet been published on the EBA’s website. However, where notifications have been received, this is reflected in the annual report.

a) Germany: does not comply and does not intend to comply.

b) Hungary: no response.

c) Malta: no response.

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**EBA/GL/2016/08 – Guidelines on implicit support for securitisation transactions – Compliance Notification Deadline – 24 January 2017**

To date, the compliance table has not yet been published on the EBA’s website. However, where notifications have been received, this is reflected in the annual report.

a) Latvia: not applicable.

b) Lithuania: no response.

c) Slovakia: not applicable.

d) Norway: not applicable.

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To date, the compliance table has not yet been published on the EBA’s website. However, where notifications have been received, this is reflected in the annual report.

a) Cyprus: no response.

b) Slovakia: does not comply and does not intend to comply.

---

EBA/GL/2016/10 – Guidelines on ICAAP and ILAAP information collected for SREP purposes – Notification Deadline – 10 April 2017

a) Malta – Malta Financial Services Authority: no response.


a) France – Autorité de Contrôle Prudentiel et de Résolution: does not comply and does not intend to comply.

b) Slovakia – Národná Banka Slovenska: does not comply and does not intend to comply.

c) United Kingdom – Financial Services Commission (Gibraltar): no response.


The following competent and/or resolution authorities failed to provide notification of compliance within the notification deadline:

a) Malta – Malta Financial Services Authority.

b) The following competent authorities submitted the following notifications:

c) Denmark – The Danish Financial Supervisory Authority (FSA): intends to comply. The Guidelines on liquidity coverage ratio (LCR) disclosure have been subject to the upcoming revised version of the Danish ‘Guideline on Liquidity Risk Management’ that is expected to come into force prior to January 2018. As of January 2018, the Danish FSA is expected to be fully compliant with the guideline.

d) France – Autorité de Contrôle Prudentiel et de Résolution (ACPR): complies. The ACPR has published national measures to comply with the EBA GL/2017/01. The text, which is available at https://acpr.banque-france.fr/sites/default/files/media/2017/10/05/avis_eba_g1_2017_01_0.pdf, explains that the Guidelines apply to systemically important credit institutions and do not apply to credit institutions which are not under the direct supervision of the European Central Bank.

e) Italy – Banca d’Italia: intends to comply. No date specified. No credit institutions for which the Banca d’Italia is responsible for ensuring compliance with the Guidelines on LCR disclosure have been deemed global (G-SIIs) or other systemically important institutions (O-SIIs). The Banca d’Italia is currently assessing the possibility of applying the Guidelines to banks (other than G-SIIs and O-SIIs) under its direct supervision. To this aim, an impact analysis and, where necessary, a public consultation could be carried out by the end of 2017.

f) Slovakia – Národná Banka Slovenska: does not intend to comply. We intend to comply only with a certain part of Annex II (LCR disclosure template). Národná Banka Slovenska intends to revise the Decree on disclosure in 2018.

g) United Kingdom – (FCA): not applicable.


The following competent and/or resolution authorities failed to provide notification of compliance within the notification deadline:

a) Sweden – Finansinspektionen.

The following competent authorities submitted the following notifications:

a) Czech Republic – Czech National Bank: intends to comply. By 6 months after their publication in all EU languages.

b) Poland – Bankowy Fundusz Gwarancyjny (Bank of Guarantee Fund, BFG): complies. As at 1 September 2017, notification date. Based on the Act of 10 June 2016 on the Bank of Guarantee Fund, Deposit Guarantee Scheme and Resolution, the BFG Council adopted internal rules for resolution proceedings and specified therein that, when applying write-down and conversion, the Fund is obliged to follow the GL. Please find below an excerpt from the rules: ‘The detailed internal rules for resolution proceedings ... Chapter 15 § 29 Write-down and conversion Section 5. When applying differential conversion rates the fund takes into account guidelines issued by the European Banking Authority on setting of conversion rates of debt to equity in accordance with Article 50 section 4 of the BRRD and other guidelines issued by the European Banking Authority in this regard’. In addition to the above, please be informed that an unofficial translation of the Act on the BFG is available on the BFG website: https://www.bfg.pl/ (https://www.bfg.pl/en/strefa_dokumentow/legal-acts)

c) Slovenia – Bank of Slovenia: complies. As at 29 August 2017, notification date. The Bank of Slovenia makes decisions regarding the application of guidelines and recommendations issued by the European Banking Authority. Decisions regarding the application of such guidelines or recommendations are published in the Official Gazette of the Republic of Slovenia. The Bank of Slovenia complies with the guidelines at hand and a separate Bank of Slovenia Regulation on the use of the Guidelines was issued for this purpose.
d) Iceland – Fjármálaefritlið [The Financial Supervisory Authority in Iceland, FME]: intends to comply. By December 2018. The BRRD has not yet been incorporated into the EEA Agreement. Nonetheless, implementation of the BRRD is in progress. The Ministry of Finance and Economic Affairs, FME and the Central Bank of Iceland are involved in that work. The designation of the resolution authority in Iceland remains to be decided. A public authority closely related to our financial supervisory authority is likely to be appointed as the resolution authority in Iceland. Hence, Fjármálaefritlið [the FSA in Iceland] will be the contact authority for resolution issues until appropriate decisions have been made regarding the designation of the resolution authority in Iceland.

e) Liechtenstein – Financial Market Authority Liechtenstein: intends to comply. By the date on which the BRRD is incorporated into the EEA Agreement. The Guidelines refer to Directive 2014/49/EU (BRRD). The national BRRD legislation is already in force in the Principality of Liechtenstein. The BRRD has not yet been incorporated into the EEA Agreement.

f) Norway – Finanstilsynet: intends to comply. By such time as the necessary legislative or regulatory proceedings have been completed. The BRRD Directive has not yet been incorporated into the EEA Agreement. As soon as the BRRD Directive is made part of the Norwegian legal order, we will return to you confirming how Norway complies with the Guidelines.

g) United Kingdom – PRA: not applicable. The Guidelines do not apply in my jurisdiction. These Guidelines apply to the resolution authority. The PRA is the supervisory authority and therefore they are not applicable to the PRA.

h) United Kingdom – (FCA): not applicable. The Guidelines do not apply in my jurisdiction. These Guidelines are addressed to resolution authorities, whereas the FCA is a competent authority for BRRD purposes in the UK.

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EBA/GL/2017/03 – Guidelines on rate of conversion of debt to equity in bail-in – Compliance Notification Deadline – 11 September 2017

The following competent and/or resolution authorities failed to provide notification of compliance within the notification deadline:

a) Sweden – Finansinspektionen.

The following competent authorities submitted the following notifications:


b) Poland – Bankowy Fundusz Gwarancyjny [Bank Guarantee Fund]: complies. As at 1 September 2017, notification date. Based on the Act of 10 June 2016 on the Bank of Guarantee Fund, Deposit Guarantee Scheme and Resolution, the BFG Council adopted internal rules for resolution proceedings and specified therein that, when applying the rate of conversion of debt equity in bail-in, the Fund is obliged to follow the GL. Please find below an excerpt from the rules: ‘The detailed internal rules of leading by Bank Guarantee Fund resolution ... Chapter 15 Write-down and conversion § 29 Section 5. When applying differential conversion rates the fund takes into account guidelines issued by the European Banking Authority on setting of conversion rates of debt to equity in accordance with Article 50 section 4 of the BRRD and other guidelines issued by the European Banking Authority in this regard’. In addition to the above, please be informed that an unofficial translation of the Act on BFG is available on the BFG website: https://www.bfg.pl/en/strefa-dokumentow/legal-acts/.

c) Slovenia – Bank of Slovenia: complies. As at 29 August 2017, notification date. The Bank of Slovenia makes decisions regarding the application of guidelines and recommendations issued by the European Banking Authority. Decisions regarding the application of such guidelines or recommendations are published in the Official Gazette of the Republic of Slovenia. The Bank of Slovenia complies with the guidelines at hand and a separate Bank of Slovenia Regulation on the use of the Guidelines was issued for this purpose.

d) Iceland – Fjármálaefritlið [The Financial Supervisory Authority in Iceland, FME]: intends to comply. By December 2018. The BRRD has not yet been incorporated into the EEA Agreement. Nonetheless, implementation of the BRRD is in progress. The Ministry of Finance and Economic Affairs, FME and the Central Bank of Iceland are involved in that work. The designation of the resolution authority in Iceland remains to be decided. A public authority closely related to our financial supervisory authority is likely to be appointed as the resolution authority in Iceland. Hence, Fjármálaefritlið [the FSA in Iceland] will be the contact authority for resolution issues until appropriate decisions have been made regarding the designation of the resolution authority in Iceland.

e) Liechtenstein – Financial Market Authority Liechtenstein [FMA]: intends to comply. By the date on which the BRRD is incorporated into the EEA Agreement. The Guidelines refer to Directive 2014/49/EU (BRRD). The national BRRD legislation is already in force in the Principality of Liechtenstein. The BRRD has not yet been incorporated into the EEA Agreement.

f) Norway – Finanstilsynet: intends to comply. By such time as the necessary legislative or regulatory proceedings have been completed. The BRRD Directive has not yet been incorporated into the EEA Agreement. As soon as the BRRD Directive is made part of the Norwegian legal order, we will return to you confirming how Norway complies with the Guidelines.
The following competent authorities submitted the following notifications:

a) Czech Republic – Czech National Bank: intends to comply. 19 July 2017. By 6 months after their publication in all EU languages.

b) Croatia – Hrvatska Narodna Banka (Croatian National Bank): intends to comply. The Croatian National Bank intends to implement these guidelines in the subordinate legislation by 28 February 2018. According to Article 124, paragraph (2), of the Act on the Resolution of Credit Institutions and Investment Firms [Official Gazette 19/2015], which act incorporates into Croatian law Directive 2014/59/EU, by 28 February 2018 at the latest the Croatian National Bank shall adopt subordinate legislation to further regulate the conditions for determining conversion rates. Therefore, the intention of the Croatian National Bank is to adopt one subordinate legislation to implement both these guidelines and the Guidelines on the rate of conversion of debt to equity in bail-in (EBA/GL/2017/03).

c) Poland – Bankowy Fundusz Gwarancyjny (Bank Guarantee Fund): Does not comply and does not intend to comply with all or parts of the Guidelines. The provisions of the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution Act of 10 June 2016 do not allow the transfer of previously existing shares or other ownership instruments to creditors whose debts are cancelled or converted. Converted creditors acquire newly issued shares; shares of existing shareholders are cancelled. Additionally, based on the BGF Act, transformation of the legal form of an entity is possible only when a cooperative bank is transformed into a joint stock company, for example if using the bridge institution tool. Based on the Act of 10 June 2016 on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution, the BFG Council adopted internal rules for resolution proceedings and specified therein that, when applying the treatment of shareholders in bail-in or the write-down and conversion of capital instruments, the Fund is obliged to follow the GL. Please find below an excerpt from the rules: ‘The detailed internal rules for resolution proceedings … Chapter 15 § 25 Write-down and conversion Section 5. When applying differential conversion rates the fund takes into account guidelines issued by the European Banking Authority on setting of conversion rates of debt to equity in accordance with Article 50 section 4 of the BRRD and other guidelines issued by the European Banking Authority in this regard’. In addition to the above, please be informed that an unofficial translation of the Act on BGF is available on the BGF website: https://www.bfg.pl/en/strefa-dokumentow/legal-acts/

d) Slovenia – Bank of Slovenia: complies. As at 29 August 2017, notification date. The Bank of Slovenia makes decisions regarding the application of guidelines and recommendations issued by the European Banking Authority. Decisions regarding the application of such guidelines or recommendations are published in the Official Gazette of the Republic of Slovenia. The Bank of Slovenia complies with the guidelines in question and a separate Bank of Slovenia Regulation on the use of the Guidelines was issued for this purpose.

e) United Kingdom – PRA: not applicable. The Guidelines do not apply in my jurisdiction. These Guidelines apply to the resolution authority. The PRA is the supervisory authority and therefore they are not applicable to the PRA.

f) United Kingdom – FCA: not applicable. The Guidelines do not apply in my jurisdiction. These Guidelines are addressed to resolution authorities, whereas the FCA is a competent authority for BRRD purposes in the UK.

g) Iceland – Fjarmaerafleritlið [The Financial Supervisory Authority Iceland, FME]: intends to comply. By December 2018. The BRRD has not yet been incorporated into the EEA Agreement. Nonetheless, implementation of the BRRD is in progress. The Ministry of Finance and Economic Affairs, FME and the Central Bank of Iceland are involved in that work. The designation of the resolution authority in Iceland remains to be decided. A public authority closely related to our financial supervisory authority is likely to be appointed as the resolution authority in Iceland. Hence, Fjarmaerafleritlið [The FSA in Iceland] will be the contact authority for resolution issues until appropriate decisions have been made regarding the designation of the resolution authority in Iceland.

h) Liechtenstein – Financial Market Authority Liechtenstein: intends to comply. By the date on which the BRRD is incorporated into the EEA Agreement. The Guidelines refer to Directive 2014/49/EU (BRRD). The national BRRD legislation is already in force in the Principality of Liechtenstein. The BRRD has not yet been incorporated into the EEA Agreement.

i) Norway – Finanstilsynet: intends to comply. By such time as the necessary legislative or regulatory proceedings have been completed. The BRRD Directive has not yet been incorporated into the EEA Agreement. As soon as the BRRD Directive is made part of the Norwegian legal order, we will return to you confirming how Norway complies with the Guidelines.

The following competent and/or resolution authorities failed to provide notification of compliance within the notification deadline:

a) United Kingdom – Bank of England: email dated 8 December 2017. Currently giving policy consideration to this matter, with a view to being able to provide the EBA with a definitive response, probably by mid-January.
The following competent authorities submitted the following notifications:

a) Belgium – National Bank of Belgium: intends to comply. Starting from the SREP process in 2018. For concrete implementation of the GL, we will await further instructions from the ECB-SSM, who will implement the GL in the 2018 SREP methodology for significant institutions and presumably also for less significant institutions (LSIs; methodology still under construction). If the latter is not the case, we commit to developing a national SREP approach to cover the ICT risk assessment of LSIs.

b) Bulgaria – Българска народна банка (Bulgarian National Bank) – intends to comply. By 31 December 2018. Relevant regulatory proceedings have been planned for 2018, and the SREP manual will be supplemented with the requirements of the GL. As well. The credit institutions will be committed to comply with them by the end of 2018.

c) France – ACPR – Banque de France: Intends to comply. By the application date of the GL. The methodology of the ACPR will be very comparable with the methodology chosen by the SSM for the supervision of significant institutions.

d) Malta – Malta Financial Services Authority (MFSA): intends to comply. The MFSA will be compliant in 2018 and will adopt a proportional approach for LSIs once the relevant EBC operational guidelines comes into effect.

e) Slovakia – Нárodná Banka Slovenska: does not comply and does not intend to comply. The competent authority does not comply and does not intend to comply with the Guidelines and recommendations for the following reasons. The current practices of Нárodná Banka Slovenska as competent authority mostly implement the content of the draft guidelines. Despite this, organisational arrangements, personnel resources and expertise level do not enable full compliance with the Guidelines. Нárodná Banka Slovenska will continue with gradual implementation of relevant components of the Guidelines, focusing on items of risk taxonomy with potentially highly severe impacts to which the supervised institutions are or may be exposed.

f) Norway – Finanstilsynet: intends to comply. By 31 December 2018. Finanstilsynet intends to comply with the guideline during SREP reporting in 2018 regarding ICT risks as part of operational risks. The guideline has already been used for SREP reporting in 2017 regarding ICT risks as part of operational risks.

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EBA/GL/2017/06 – Guidelines on credit institutions’ credit risk management practices and accounting for expected credit losses – Compliance Notification Deadline – 20 November 2017

The following competent and/or resolution authorities failed to provide notification of compliance within the notification deadline:

a) United Kingdom – PRA.

The following competent authorities submitted the following notifications:


b) Germany – not applicable. The Guidelines do not apply in the jurisdiction of the competent authority. The National Accounting Standard, laid down in the German Commercial Code, does not require banks to make risk provisions for expected credit losses. Value adjustments and provisions are required only for incurred losses. This, however, includes provisions for estimated losses which have already been occurred but are not visible at the balance sheet date. All German financial institutions have to prepare their annual accounts on the company’s solo level in accordance with the Commercial Code and thus follow the incurred loss model. In addition, nearly all of them also provide a consolidated financial statement according to the National Accounting Standard described. Only 25 banks report the consolidated financial statement on the basis of IFRS.

c) Slovakia – Нárodná Banka Slovenska: complies. As at 16 November 2017, notification date. Нárodná Banka Slovenska already complies with EBA/GL/2017/06 on credit institutions’ credit risk management practices and accounting for expected credit losses. It follows from these guidelines that they do not set out any requirements regarding the determination of expected loss for regulatory capital purposes as well as internal governance, credit risk, disclosures, supervisory review and evaluation process in addition to those covered in the provisions of Regulation (EU) 575/2013 and Directive 2013/36/EU. These guidelines have already been included in the NBS Decree no 4/2015 on additional types of risk, on details of the risk management function of banks and branches of foreign banks, and on the definition of a sudden and unexpected change in market interest rates. Compliance with the requirements for determining expected credit losses is ensured by adhering to IFRS 9.

d) United Kingdom – FCA: not applicable. These Guidelines apply only to credit institutions.

e) ECB: intends to comply. By mid-2018 (29 June 2018). The ECB notified the EBA of its intention to comply with the EBA Guidelines on accounting for expected credit losses by mid-2018 because of the need to formal reflecting the requirements of the Guidelines in the SSM Supervisory Manual. In this context, it is important to highlight that the ECB is already substantially applying the Guidelines at this stage, as in 2017 it carried out a thematic review on IFRS 9 aimed at assessing the preparedness of institutions in the implementation of IFRS 9. For this purpose, it developed an internal tool that incorporated the requirements and principles of the Guidelines from an institutional perspective.

f) Lichtenstein – Financial Market Authority Liechtenstein (FMA): intends to comply. Because of the significant impact of the implementation of IFRS 9 in connection with the expected credit loss (ECL) model and the corresponding amendments of internal processes for the relevant institutions in Liechtenstein, we currently expect to apply the guidelines as of 1 January 2019.
The following competent and/or resolution authorities failed to provide notification of compliance within the notification deadline:

a) Romania – National Bank of Romania.

b) United Kingdom – Financial Services Commission (Gibraltar).

The following competent authorities submitted the following notifications:

a) Estonia – Finantsinspektsioon: complies. At the notification date of 13 November 2017, the necessary legislative and/or regulatory proceedings at national level were still ongoing. Finantsinspektsioon intends to comply with the Guidelines by the date on which PSD2 is transposed into international law and to the extent that it is in accordance with national legislation.

b) Spain – Banco de España: intends to comply. By such time as the necessary legislative or regulatory proceedings implementing Directive (UE) 2015/2366 have been completed, without prejudice to Spanish national provisions implementing this regulation and within the limit of the competencies conferred on Banco de España by these national provisions.

c) Luxembourg – Commission de Surveillance du Secteur Financier (CSSF): intends to comply. By such time as the necessary legislative or regulatory proceedings have been completed. The bill enacting PSD2 in Luxembourg law is currently under discussion at the Luxembourg Parliament.

d) United Kingdom – (FCA): complies. As at 10 November 2017, notification date. National transposition legislation, The Payment Services Regulations, permits the Financial Conduct Authority to direct firms on the requirements for professional indemnity insurance (PII) from 13 August 2017 (Regulation 1(2)(d)). In September 2017, we indicated our intention to comply in our Policy Statement. In our approach to payment services and electronic money (clause 3.16), we direct that the minimum monetary amount of PII is the amount calculated in accordance with the ‘Guidelines on the criteria on how to stipulate the minimum monetary amount of the professional indemnity insurance or other comparable guarantee under article 5(4) of Directive (EU) 2015/2366 (PSD2)’ published by the EBA under Article 5(4) of PSD2 on 7 July 2016 (EBA-GL-2017-08).


The following competent and/or resolution authorities failed to provide notification of compliance within the notification deadline:

a) Lithuania – Lietuvos Bankas (Bank of Lithuania).

b) Malta – Malta Financial Services Authority.

c) Slovenia – Banka Slovenije (Bank of Slovenia).

d) United Kingdom – Prudential Regulation Authority (PRA).

e) United Kingdom – Financial Conduct Authority (FCA).

The following competent authorities submitted the following notifications:

a) Belgium – National Bank of Belgium (NBB): complies. No specific document to implement this Recommendation has been published but the NBB will use the Recommendation in its international cooperation involving the countries included in the Recommendation.

b) Croatia – Hrvatska Narodna Banka (Croatian National Bank): complies. As at 7 June 2017, notification date. The Croatian National Bank complies with the Recommendation by means of its supervisory practices; the updated list of equivalent third-country supervisory authorities covered by the initial Recommendation and all its following iterations (i.e. additional Recommendations) is the basis for the acceptance of their participation in the work of colleges.

c) France – ACPR: intends to comply. By 1 January 2018. The formal decision to intend to comply was made by ACPR on 8 November 2017. Effective compliance will be reached before year end through appropriate amendments to the internal technical documentation.

b) Italy – Banca d’Italia: complies. As at 7 August 2017, notification date. The Italian institutional framework does not require specific legislative and/or regulatory provisions for the application of the Recommendations on the equivalence of third-country confidentiality regimes. The supervisory approaches and practices put in place by Banca d’Italia for cooperation and information exchange with third countries are in line with the EBA Recommendations.

e) Iceland – The Financial Supervisory Authority: intends to comply. By the date on which a relevant institution or instrument exists in my jurisdiction. Currently, there are no institutions operating in Iceland from third countries which are added to EBA/REC/2015/01. Should that change, the FSA of Iceland will comply with the recommendations’ guidance on the equivalence of the confidentiality regime in accordance with relevant Icelandic legislation and Article 116(d) of CRD IV.
f) Spain – Banco de España: does not comply and does not intend to comply. As the competent authority for the direct supervision of the less significant credit institutions, the Banco de España will assume as its own the Recommendation EBA/REC/2017/01 amending EBA/REC/2015/01 on the equivalence of confidentiality regimes as of the date of this communication, with the exception of the part related to the ‘Central Bank’ of the territory of Kosovo, in consistency with the Spanish position of not recognising its unilateral declaration of independence, in accordance with Resolution 1244/1999 of the United Nations Security Council (UNSCR 1244/1999) and the appropriate advisory opinion of the International Court of Justice on the declaration of independence of Kosovo.

g) Romania – National Bank of Romania: does not comply and does not intend to comply with all or parts of the Recommendation. The National Bank of Romania does not, and does not intend to, fully comply with EBA/REC/2017/01 amending the Recommendation on the equivalence of confidentiality regimes [EBA/REC/2015/01], bearing in mind that they also refer to the Central Bank of the Republic of Kosovo. In this respect, we mention that for the National Bank of Romania to accept the above-mentioned Recommendation is not in line with Romania’s national position of non-recognition of Kosovo’s sovereignty.


The following competent and/or resolution authorities failed to provide notification of compliance within the notification deadline:

a) United Kingdom – Financial Services Commission (Gibraltar).

The following competent authorities submitted the following notifications:

a) Bulgaria – EIOPA, ESMA: complies. The FSC complies with the Guidelines by the date of the FSC Decision, issued on 11 July 2017. With regard to insurance supervision, the FSC declares ‘intend to comply with guideline 6, paragraph 6, of the Joint Guidelines, regarding the multiplication criterion to assess whether or not a qualifying holding is acquired indirectly. This currently contradicts the provisions of the Bulgarian Code on Insurance and particularly Article 69(4) thereof, which stipulates that: “Where a qualifying holding is acquired or the crossing a threshold under Article 68, Paragraph 1 is indirect, the notification under Paragraph 1 shall be submitted to the Commission upon acquisition of a holding in a current direct or indirect shareholder, in the following cases: 1. acquisition of a qualifying holding or increase of holding resulting in exceeded 20%, 30% or 50% in the capital of a shareholder exercising control over the insurer, respectively reinsurer’. Having regard to the above provision, the FSC will undertake measures to amend the legislation in force in order to declare full compliance with guideline 6, paragraph 6. The FSC has included an amendment of the Insurance Code in its Legal Programme for 2017. We did not provide an exact date for full compliance with this particular guideline (6.6), because the terms depend on the national legislation procedure and the time schedule of the National Parliament, which will adopt the amendments.

b) Czech Republic – EBA, EIOPA, ESMA: does not comply and does not intend to comply. The Czech National Bank (CNB) does not comply and does not intend to comply with point 6 of the Joint Guidelines to the extent that the guideline requires employing the multiplication criterion for the assessment of indirect acquisition of the qualifying holding. The CNB is of a view that the legal basis, as well as the practical importance of the multiplication criterion, is questionable, as it often identifies those who hold no real influence in a financial institution and thus renders many ‘false positives’. This results in higher administrative costs for supervisors as well as market participants; however, these costs are not outweighed by any significant benefits of a more complex methodology. The control criterion is sufficient as well as solely legally sound for the assessment of indirect qualifying holdings. The CNB does not partially comply with point 8 of the Joint Guidelines to the extent that the guideline requires applying the proportionality principle also to the composition of the required information proportionate to the nature of the acquirer and acquisition (point 8.2 in particular). Under the Czech legal system, the CNB is allowed to apply this principle only partially. It is not possible for the CNB to discretionarily require different compositions of information from different types of acquirers. The set of information that is required for the purposes of assessing qualifying holdings is fixed by law, which recognizes only a certain level of proportionality, and the CNB cannot consider the application that does not contain all the information required by the law as complete or accept it. The law partially distinguishes between different situations; for example, there are less stringent requirements for information if the proposed acquirer is already a regulated and supervised entity in the EU. The scope of application of the proportionality principle to the type and breadth of the information required by the Joint Guidelines (ad hoc assessment based on nature of the acquirer, specificities of transaction, degree of involvement, size of the holding, etc.) is, however, not attainable. The CNB also notes that the set of required information will be regulated in the near future by the EU regulatory technical standards, which also do not permit this level of proportionality. The CNB complies with the rest of the Joint Guidelines as of the time of the notification.

c) Germany – EBA, EIOPA, ESMA: does not comply, but intends to comply. It intends to comply by such time as the necessary legislative or regulatory proceedings have been completed. These legislative or regulatory proceedings comprise amendments to the German Banking Act (Kreditwesengesetz), the German Act on the Supervision of Insurance Undertakings (Versicherungsaufsichtsgesetz) and the Holder Control Regulation (Inhaberkontrollverordnung).

d) Estonia – EBA, EIOPA, ESMA: does not comply and does not intend to comply. Finantsinspektsioon complies with these guidelines except points 6.6-6.8 in the first chapter of Title II, ‘Proposed acquisition of a qualifying holding and cooperation between competent authorities’, because it is in conflict with Estonia’s national legislation.

e) Croatia – EIOPA, ESMA: does not comply, but intends to comply. It intends to comply by such time as the necessary legislative or regulatory proceedings have been completed regarding the adoption of the new Capital Market Act, whose provisions will regulate the matter of central counterparties and the authorisation assigned to the Croatian Financial Services Supervisory Agency (HANFA)
for adopting necessary subordinate regulations for the purpose of compliance with the Guidelines. HANFA provided additional explanations in the template for replies.

f) France – EBA, EIOPA: does not comply, but intends to comply. (Sent to EBA only) By such time as the necessary legislative or regulatory proceedings have been completed. The ACPR already complies with most of the content of the guidelines. On the banking side, current regulations concerning authorisation, modification of authorisation (including qualifying holdings) and withdrawal of authorisation of credit institutions are in the process of being replaced by a new ministerial order, the publication of which is expected by the end of October 2017. On the insurance side, some amendments to the regulatory provisions in the French Insurance Code are necessary to fully comply with the guidelines: point 5 on significant influence and point 6 on indirect acquisitions of qualifying holdings. Amendments have already been discussed with the French Treasury and should come into force by the end of the year.

g) Italy – EBA: no. Does not comply but intends to comply with the parts of the Joint Guidelines not already fully addressed at the national level, by such time as the necessary legislative or regulatory proceedings have been completed. Please note that, for what relates to the calculation of the indirect acquisitions of qualifying holdings under section 6 of the Joint Guidelines, the Italian Consolidated Banking Law (Italian legislative decree no 385/1993 and subsequent amendments) at present provides only for the control criterion; therefore, the possible amendment to the Consolidated Banking Law does not depend on the Bank of Italy and is subject to the ordinary legislative process.

h) Netherlands – EBA: does not comply, but intends to comply. By such time as necessary legislative or regulatory proceedings have been completed, with regard to the assessment of professional competence. De Nederlandse Bank (DNB) intends to comply with the sections of these Joint Guidelines that relate to the assessment of the professional competence of a proposed acquirer of a qualifying holding (see paragraphs 10.1, 10.3, 10.5 and 10.23-10.30). In applying the first and second criterion for assessing a proposed acquisition, DNB assesses the integrity (propriety) of a proposed acquirer and of those who will direct the business of the ‘target’ undertaking, as well as the suitability (including skills, competence and experience) of those who will direct the business of the ‘target’ undertaking. The relevant provisions in the sectoral directives (e.g. Article 23(1)(a) and (b) of the Capital Requirements Directive – CRD IV) are transposed into national law in the Netherlands through Sections 3.99 paragraph 1 and 3.100 paragraph 1 subparagraphs a and b of the Dutch Financial Supervision Act (Wet op het financieel toezicht, Wft). The conceptual framework in the Joint Guidelines with regard to the first and second assessment criteria differs from these national provisions, in that the Joint Guidelines refer to the reputation of the proposed acquirer (first criterion, including professional competence) and the reputation and experience of those who will direct the business of the target undertaking (second criterion). DNB will closely examine whether the current national framework can be further aligned with the conceptual framework in the Joint Guidelines, specifically in relation to the assessment of the acquirer’s professional competence. This may require amendments to the relevant national law and/or changes to the supervisory practices of DNB. DNB intends to comply with these Joint Guidelines by such time as these necessary changes to national legislative or regulatory proceedings (if any) have been completed. Relevant sections of the Wft, unofficial translation: Section 3.99, paragraph 1: 1. The propriety (i.e. integrity) of the holder of a declaration of no objection (for a proposed acquisition of a direct or indirect qualifying holding) that, based on its qualifying holding, will determine or co-determine or may determine or co-determine the policy of the undertaking concerned (i.e. the relevant “target” undertaking), shall be beyond doubt. Section 3.100, paragraph 1: 1. De Nederlandse Bank or, with regard to banks (i.e. credit institutions), not being holders of a licence as referred to in Section 3.4, the European Central Bank issues a declaration of no objection (DNO) for an act as referred to in Section 3.95(1), unless: a. the integrity of the party applying for the DNO of or the persons who by virtue of the proposed qualifying holding will, or will have the power to, determine or co-determine the policy of the financial undertaking is beyond doubt; b. the persons who by virtue of the proposed qualifying holding will determine the day-to-day policy of the financial undertaking are unsuitable to the task; c. the financial soundness of the applicant, with due regard to the financial undertaking’s business activities, is not guaranteed; d. the financial undertaking, as a result of the qualifying holding, will be unable to comply sustainably with the prudential rules set pursuant to this Act; e. there is a justified suspicion that the proposed acquisition or increase of the qualifying holding may involve or have involved actual or attempted money laundering or terrorist financing as referred to in the Anti-Money Laundering and Anti-Terrorist Financing Act (Wet ter voorkoming van witwassen en financieren van terrorisme – Wwft) or might increase the risk thereof, or f. the information provided by the applicant is incomplete or incorrect.”

i) Poland – EBA, EIOPA, ESMA: does not comply and does not intend to comply. Komisja Nadzoru Finansowego (KNF) complies with the Joint Guidelines on the prudential assessment of acquisitions and increases of qualifying holdings in the financial sector. However, the KNF does not intend to comply with the application of multiplication criterion in case of the indirect acquisitions in insurance sector as mentioned in paragraph 6.6 and relevant conclusions in Annex II. First of all, our law on insurance and reinsurance activities obliges us to apply the control criterion only. In our opinion, a minority shareholder of the direct acquirer, which does not have any decisive influence on this acquirer, cannot be deemed an indirect acquirer of a qualifying holding, since it cannot exercise any (indirect) influence on the insurance or reinsurance undertaking and assessing influence which does not exist is irrelevant from the prudential/Supervisory point of view and contrary to the Solvency II Directive.
a. Please find enclosed electronic links to the Polish Act on Insurance and Reinsurance Activity dated 11 September 2015 and Decree of the Ministry of Finance dated 19 February 2009 regarding documents which are to be enclosed for notification of intention of acquisition or taking up shares of a domestic insurance or reinsurance undertaking or of intention of becoming a parent undertaking of an insurance or reinsurance undertaking. These acts regulate discussed notifications.


c. http://isap.seim.qov.pl/DetailsServlet?id=WDU20160001772&min=1

d. The same reason for partial compliance applies to the banking sector. Title II, Chapter 1, point 6 of the Joint Guidelines defines and describes the term ‘indirect acquisition of qualifying holding’ in a way which is inconsistent with the Polish law implementing Directive 2007/44 and the KNF’s supervisory approach. It concerns in particular the so-called ‘multiplication criterion’ introduced by the Joint Guidelines in order to assess the appearance of the indirect acquisition of the qualifying holding. This criterion assumes that a non-controlling direct or indirect shareholder (acquirer) of the directly qualifying shareholder (acquirer) of the supervised institution shall be deemed an indirect qualifying shareholder (acquirer) of this institution if as a result of multiplication of holdings it has (indirectly) 10% or more of shares in the credit institution. For example, a 30% shareholder of the direct acquirer of 40% of shares in the credit institution, according to Joint Guidelines, should be deemed an indirect acquirer of 12% of shares in this credit institution and subject to the obligatory supervisory assessment. The Polish law does not provide for such solutions and the KNF considers them inappropriate from the supervisory and prudential perspectives. It must be noted that the goal of supervisory control over the acquisition of qualifying holdings in the supervised institutions is to ensure the sound and prudent management of the institution in which an acquisition is proposed, having regard to the likely influence of the proposed acquirer on that institution. Indirect acquirers of qualifying holdings determined according to the multiplication criterion do not have any considerable influence on the (sound and prudent) management of the institutions, so the application to such acquirers of all procedural requirements and supervisory assessment of such acquirers would be far superfluous. For the capital market sector, the KNF does not intend to comply with the following:

i. Title II, Chapter 1, point 4 of the Joint Guidelines — the KNF does not have instruments to determine if cooperating shareholders are acting in concert. In particular, the scope of information obtained by the KNF from notification regarding acquisition of shares does not enable the KNF to determine acting in concert.

ii. Title II, Chapter 1, point 5 of the Joint Guidelines — the provisions of Polish law do not give the KNF any right to require any entity to notification the KNF regarding acquisition of shares which amount to less than 10% of the share capital of the acquired company.

iii. Title II, Chapter 1, point 6 of the Joint Guidelines — the provisions of Polish law and the well-established supervisory practice of the KNF are not in line with proposed relevant text for assessing if a qualifying holding is acquired indirectly.

iv. Title II, Chapter 1, point 8 of the Joint Guidelines — pursuant to Polish law, the KNF is not entitled to differentate the scope of information required from the proposed acquirer at the stage of filing notification (formal stage).

v. Title II, Chapter 1, point 10.9 of the Joint Guidelines — according to the Polish legal system, all public administration bodies (the KNF falls within this category of authorities) act on the basis of and within the law; therefore the KNF cannot comply with the fact saying ‘without prejudice to any limitations imposed by national law’.

vi. Title II, Chapter 1, point 10.15, letter a, and Point 10.18 in fine of the Joint Guidelines these guidelines require the supervisor to consider in a process of assessing propriety of a proposed acquire the following factors: ‘any evidence that the proposed acquirer has not been transparent, open and cooperative in its dealings with supervisory or regulatory authorities’, ‘other indications of wrongdoing, such as adverse media reports and allegations’. The assessment of these factors requires the supervisor to conduct additional proceedings. Taking into consideration the fact that any case concerning notification regarding acquisition of shares is subject to final term, it is not possible to conduct additional proceedings.

vii. Title II, Chapter 1, point 10.19 of the Joint Guidelines — according to Polish law, failure to provide documents required by the law or by the supervisor (in the scope of notification regarding acquisition of shares of investment firms) always results in a negative decision with respect to the proposed acquisition.

viii. Title II, Chapter 1, point 10.21 of the Joint Guidelines — in Polish law, the assessment of ‘the integrity and reputation of any person linked to the proposed acquirer, meaning any person who has, or appears to have, a close family or business relationship with the proposed acquirer’ is not stated in the law as an object of the administrative proceedings. Therefore, the KNF is not entitled to require such a person to supplement any documents regarding his or her integrity and reputation.
k) Sweden – EBA, EIOPA, ESMA: does not comply and does not intend to comply. Sweden does not comply and does not intend to comply with paragraphs 8.3, 10.3, 10.21 and 10.28 of the Guidelines. The specific reason for non-compliance is set forth below.

Paragraph 10.21: According to Swedish law, the Swedish FSA cannot when assessing the integrity of the proposed acquirer take into consideration the integrity and reputation of any person linked to the proposed acquirer, meaning any person who has, or appears to have, a close family or business relationship with the proposed acquirer. Paragraph 10.28: According to Swedish law, it is not possible to take into consideration the objective of the acquisition or increase of a qualifying holding as regards the proportionality principle. This means that when a person acquires significant holdings in a financial company with the aim of diversifying the portfolio and/ or obtaining dividends or capital gains, rather than with the aim of becoming involved in the management of the financial institution concerned, the competence requirements cannot be reduced. However, it is possible according to the proportionality principle to take into consideration the influence that the proposed acquirer will exercise over the target undertaking, i.e. the competence requirements can be reduced for proposed acquirers who are not in a position to exercise significant influence over the target undertaking. The same applies to paragraphs 8.3 and 10.3 of the Guidelines.

l) United Kingdom – EBA: does not comply and does not intend to comply. The Prudential Regulation Authority (PRA) is supportive of the ESAs seeking to address some of the inconsistencies in the application of the relevant EU sectoral legislation between national supervisory authorities in cross-sectoral or cross-border transactions. The PRA will comply with the Joint Guidelines on the prudential assessment of acquisitions and increases of qualifying holdings in the financial sector, except in relation to provisions that conflict with a methodology set out in UK primary legislation, namely the Financial Services & Markets Act 2000 (FSMA), for identifying acquirers of indirect qualifying holdings. Accordingly, the PRA wishes to notify the ESAs of partial compliance with the Guidelines.

The PRA will comply with the Guidelines, with the exception of Section 6 (Indirect acquisitions of qualifying holdings) and Annex II (Practical examples of the determination of acquisitions of indirect holdings) thereof. It is the view of the UK authorities that Part XII (control over authorised persons) together with Part XXIX (interpretation) of the FSMA already complies with the requirements of EU sectoral legislation in relation to the methodology for identifying acquirers of indirect qualifying holdings, in accordance with the notification provided to the Commission following the UK’s transposition of the EU sectoral legislation.

m) United Kingdom – ESMA, EIOPA: does not comply and does not intend to comply. The Financial Conduct Authority (FCA) is supportive of the ESAs seeking to address some of the inconsistencies in the application of the relevant EU sectoral legislation between national supervisory authorities in the case of cross-sectoral or cross-border transactions. The FCA will comply with the Joint Guidelines on the prudential assessment of acquisitions and increases of qualifying holdings in the financial sector, except in relation to provisions that conflict with a methodology set out in UK primary legislation, namely the Financial Services & Markets Act 2000 (FSMA), for identifying acquirers of indirect qualifying holdings. Accordingly, the FCA wishes to notify the ESAs of partial compliance with the Guidelines. It is the view of the UK authorities that Part XII (control over authorised persons) together with Part XXIX (interpretation) of the FSMA already complies with the requirements of EU sectoral legislation in relation to the methodology for identifying acquirers of indirect qualifying holdings. No response was received by the EBA from the FCA.

ESAs 2016 72 (also referred to as JC/GL/2017/17) – GI Risk based supervision – Notification Deadline – 7 June 2017

The following competent authorities submitted the following notifications:

a) Belgium – EBA: intends to comply. By 7 April 2017. The FATF conducted a mutual evaluation of Belgium in 2014-15 (final report published early 2015). During the course of the mutual evaluation, the FATF evaluation team also assessed the organisation of the NBB, which is the Belgian AML/CFT supervisor for credit institutions, life insurance companies, stockbroking firms, clearing and settlement institutions, payment institutions and electronic money institutions. As a result of this assessment, the FATF addressed recommendations to the NBB with a view to improving the AML/CFT supervision of financial institutions on several points (by promoting a more AML/CFT-specific approach, by improving the level of resources for AML/CFT supervision, etc.). As a result of the publication of the final FATF evaluation report, the NBB decided in 2015 to reorganise its AML/CFT supervision by regrouping and increasing progressively, as from 1 January 2016, the resources for AML/CFT supervision in a new AML/CFT group responsible for both policy making and off-site supervision. While some elements of a risk-based supervision model were already created before this reorganisation, the redevelopment of a complete and coherent risk-based supervision model across sectors has been one of the main priorities of the new AML/CFT team since the decision to create it was taken. Because of some other, partly unforeseen, priorities for Q1 to Q3 of 2016 (incorporation into national law of 4MLD and special supervisory actions after the terrorist attacks in Paris and Brussels and the publication of the ‘Panama Papers’), the speed of the process for this redevelopment of a risk-based supervision model has been slightly slower than initially intended but is now fully in progress. While the NBB is already compliant with some parts of the guidelines (see below), some parts of the guidelines are still to be developed later in 2017 or early 2018. Therefore, the NBB is not yet fully compliant with the guidelines today, but intends to be fully compliant by the end of the implementation period as foreseen by the ESAs (c. 7 April 2018). The Joint Guidelines perceive the risk-based supervision model as a cyclical process of four steps. The NBB is fully compliant with step 1, ‘Risk Identification’. The NBB gathers AML/CFT-specific information from financial institutions via two well-established supervision instruments. The NBB receives from the institutions a yearly AML/CFT report (drafted by the anti-money laundering compliance officer (AML CO)) on every institution under supervision, and, most importantly, every institution under supervision is obliged to answer an AML/CFT questionnaire on an annual basis. This questionnaire covers, as of 2017, both inherent risk and the quality of the risk mitigation measures applied by the institutions to control their risk, so that the NBB can identify the residual AML/CFT risk for every institution. In 2016, the questionnaire was already revised thoroughly to bring it more in line with the ESAs’ Joint Guidelines on risk based supervision, and this revision process will be completed in the course
of 2017. The NBB will in 2017 and 2018 also further improve risk identification by gathering AML/CFT specific information from other sources as well, e.g. from the Belgian FIU, prudential supervision assessments and statutory audits. With regard to step 2, ‘Risk Assessment’, the NBB is already partly compliant with the Joint Guidelines. With regard to the assessment of the quality of the risk mitigation measures, the NBB already has procedures and processes in place to assess the information that is gathered from the institutions (via the annual AMP/CFT report of the AMLCO and via the assessment of the completed questionnaires). While the inherent AML/CFT risk of supervised institutions is already taken into account today, this is done mainly on the basis of the supervisory experience and the knowledge the NBB has of every institution. A is however still lacking development of a methodology for assessing inherent AML/CFT-risk by applying a clear and more objective process in the progress as of today. It is intended that this process will be fully developed during Q2-Q3 of 2017. Therefore, the NBB intends to be fully compliant with this part of the Joint Guidelines by the end of the implementation process at the latest. With regard to step 3, ‘Supervision’, the NBB is also already partly compliant today. Supervisory priorities, in particular the decision made by the NBB to conduct on-site inspections, are already partly decided by applying a risk-based approach. As explained under step 2, the NBB already takes into account inherent AML/CFT risk and the quality of the risk mitigation measures applied by the supervised institutions, to decide on its supervisory priorities. However, in the continuation of the development of the above-mentioned process for fulfilling step 2 of the Joint Guidelines, the NBB intends to develop a more objective supervisory approach that is in line with its risk assessment of the different financial sectors and institutions. The NBB has planned the development of the supervisory approach as described above during Q3-Q4 of 2017 and is therefore confident that it will fully comply with step 3 of the Joint Guidelines by the end of the implementation process. Finally, the NBB concludes that for step 4, ‘Monitoring and Follow-up Action’, it is also already partially compliant today but intends to improve its compliance by the end of the implementation process. Today, some elements of the risk-based supervision model are already monitored and reviewed periodically or whenever this is deemed necessary. This is in particular the case regarding the reporting instruments the NBB has at its disposal at the moment (AML/CFT annual report of the AMLCO and the yearly questionnaire; see step 1). These reporting instruments are revised on a regular basis and the AML/CFT questionnaire is revised on a yearly basis, taking into account the supervisory experiences of the previous year, new developments or trends, etc. However, as at the initial development of the other steps (2 and 3) is still in progress today, the NBB has planned to develop the procedures for monitoring and reviewing these elements of risk-based supervision (step 4) during Q4 of 2017 and Q1 of 2018, and therefore also intends to fully comply with that aspect of the ESA Joint Guidelines by 7 April 2018 at the latest.

b) Ireland – EBA: complies. As at 11 May 2017, notification date. The steps to be taken when conducting supervision on a risk-sensitive basis (submitted on 11 May). In relation to bullet 2 on page 3 of the form, which says ‘if a competent authority complies with the Joint Guidelines, please inform of any national measures published in the relevant jurisdiction to comply (if any) by providing either a summary or an electronic link’, please see the wording below: The Central Bank of Ireland has implemented the guidelines contained in the Risk Based Supervision Guidelines (“Guidelines”) into its supervisory processes without the requirement for legal amendment. The Central Bank has the appropriate powers to comply with the Guidelines within existing domestic legislation, as provided for in the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010, as amended, and the Central Bank Acts. The Central Bank implements a risk-based approach to anti-money laundering (AML) and countering the financing of terrorism (CFT) supervision of credit and financial institutions as set out in the Guidelines. The Central Bank maintains a money laundering (ML) and terrorist financing (TF) risk assessment model, which identifies and assesses ML/TF risks and applies a risk-sensitive approach to AML/CFT supervision. The Central Bank implements a graduated approach to AML/CFT risk based supervision as set out in the Guidelines, which involves the application of higher intensity supervisory measures (e.g. inspections) being used to monitor firms that are considered higher risk with less intensive supervisory measures (e.g. compliance questionnaires) being utilised in areas of lower risk.

c) Italy – EDPB: intends to comply. By 7 April 2018. On 27 December 2016, an AML risk-based supervisory model for the banking sector, compliant with the Risk-Based Supervision Guidelines, was officially approved by Banca d’Italia. For the other financial sectors, a model – based on the same principles and structure – is in the process of development. The model applicable to the remaining financial sectors should presumably be finalised by the application date of the Guidelines (7 April 2018).

d) Cyprus – EBA: complies. As at 6 June 2017, notification date. The Central Bank of Cyprus (CBC) as the competent supervisory authority for credit, payment and e-money institutions has developed over the years a risk-based methodology for off-site monitoring and on-site inspections to ensure institutions’ compliance with the legal and regulatory framework. The CBC’s supervisory approach to credit institutions was calibrated and augmented with the technical assistance of the International Monetary Fund, following the economic crisis of 2013. The said risk-based methodology complies with the Joint Guidelines on risk based supervision. In particular, off-site tools and systems were developed that provide for, inter alia:

1. a comprehensive analysis of inherent ML/TF risks within a number of business factors such as customers, products and services, geographic locations/areas, and delivery channels;
2. an assessment of the internal control environment in place to mitigate and/or control the inherent ML/TF risks, as identified and measured;
3. institutional risk profiles;
4. specific AML/CFT supervisory strategies (adapted to institutional risk profiles).

In relation to on-site inspections, it is noted that the CBC’s methodology for on-site activities cover a wide spectrum of areas from governance, compliance, training and enhancing awareness to filtering transactions, IT audits, correspondent banking, introduced business, etc. In relation to payment and e-money institutions, it should be noted that, in view of the small number of institutions operating in Cyprus, there was no need to develop sophisticated off-site tools and systems for the monitoring of ML/TF risks, apart from monthly collection of statistics. However, currently the CBC is in the process of reviewing its risk-based methodology to also apply to the increasing number of authorised payments and e-money institutions.
e) Malta – Financial Intelligence Analysis Unit (FIAU), EBA: intends to comply. By 1 November 2017. With respect to on-site inspections of the financial services sector, the FIAU works jointly with the MFSA, as permitted under the agency facility of our law. We (the FIAU and MFSA) wish to state that we are currently partially compliant with the Joint Guidelines. For your information, we also attach our joint document, which outlines our current partially compliant situation, and the work in progress towards achieving full compliance with the Joint Guidelines.

f) Netherlands – EBA: Intends to comply. By 7 April 2018. DNB currently complies to a large extent with the GL on risk-based supervision (RBS) and we intend to include the missing aspects in our RBS process in the coming year. DNB identifies and assesses the ML/TF risks in the financial sector through an annual questionnaire which is disseminated to all banks, life insurance companies and payment institutions (step 1 and step 2 of the RBS GL). Based on this assessment, a risk profile is assigned to FIs, which feeds into our annual supervisory plan (step 3 of the RBS GL). This risk model is monitored and reviewed annually (step 4 of the RBS GL). There are some aspects which still need to be implemented, such as the inclusion of the EC SNRA and NPA risk factors in our RBS model. Furthermore, we are reviewing the ways in which we could include more of the available prudential information in the risk profiles and update the risk profiles more regularly (in addition to the annual review) as well as ways to communicate to the sector about the results and methodology of our ML/TF risk assessment. In addition to the individual risk profiles, we will develop sectoral ML/TF risk assessments and an overall ML/TF risk assessment of the financial sector in the coming year.

g) Austria – EIOPA, EBA: complies. As at 7 June 2017, notification date. National measures published by Austria to comply with the Joint Guidelines in Article 25, paragraphs 2 and 3, of the Financial Markets Anti-Money Laundering Act (Finanzmarktk-Geldwäsche-AMG, BGBl I Nr. 118/2016) stipulate as follows: ‘(2) The FMA shall, when performing its duties and exercising its supervisory powers pursuant to this federal act, proceed on the basis of a risk-based approach. It shall

1. analyse and assess the risks of money laundering existing in the financial system of Austria,

2. base the frequency and intensity of on-site and off-site supervision on the risk profiles of obliged entities and on the risks of money laundering and terrorist financing in Austria,

3. review the assessment of the money-laundering and terrorist financing risk profile of obliged entities, including the risks of non-compliance, both periodically and when there are major events or developments affecting the obliged entities’ management and operations,

4. take into account, as appropriate, the degree of discretion allowed to the obliged entities as well as the risk assessments that underlie this discretion, as well as the adequacy and implementation of the internal policies, controls and procedures of the obliged entities.(3) The FMA shall, in the enforcement of the provisions of this federal act, including the issuing of Regulation on the basis of this federal act and their enforcement, as well as on the basis of Regulation (EU) 2015/424, take into account European Convergence in respect of supervisory tools and supervisory procedures. To this end, the FMA shall participate in the activities of the European Supervisory Authorities, and shall apply Guidelines, Recommendations and other measures decided upon by the European Supervisory Authorities. The FMA may deviate from the guidelines and recommendations of the European Supervisory Authorities when justified grounds exist to do so, in particular in the event of a conflict of provisions set out under national law [https://www.ris.bka.gv.at/GeltendeFassung.wxe?Abfrage=Bundesnormen&Gesetzesnummer=20009769, original German version, https://www.fma.gv.at/en/national/supervisory-laws/, download of the English working translation]. Recommendations delivered in 2017.

e) Portugal – EBA: intends to comply. By 31 March 2018. Full compliance will be achieved in due course by adjusting and formalising internal supervisory processes and procedures, notably through the incorporation of additional elements consistent with the risk-based approach to supervision into all relevant internal practices.

f) Finland – EBA: intends to comply. By 7 April 2018. The Finnish Financial Supervisory Authority (FIN-FSA) intends to comply with the Guidelines by improving FIN-FSA risk-based assessment for money laundering and terrorist financing and creating a risk tool related to it. FIN-FSA is also developing its supervisory procedures to be compliant with the Joint Guidelines and to conduct AML/CFT supervision on a risk-sensitive basis.

g) Sweden – ESMA: intends to comply. By 7 April 2018. Finansinspektionen will comply with the Joint Guidelines by 7 April 2018 in accordance with section 73. On 2 August 2017, a new AML/CFT act will enter into force. At the same time, new AML/CFT regulations issued by Finansinspektionen will enter into force. These acts implement Directive (EU) 2015/424, and provides an improved framework for risk-based supervision compared with the current legal framework. Finansinspektionen’s new regulations require all obliged entities under Finansinspektionen’s supervision to report data once a year. The information will constitute the foundation for risk assessments and risk-based supervision in line with the Guidelines. The first reporting period starts on 31 December 2017.

h) United Kingdom – PRA, EBA: not applicable. The scope of the Guidelines is outside the scope of the PRAs competence, and they are therefore not applicable to the UK PRA. The relevant UK authority is responding.

i) Liechtenstein – EBA: intends to comply. By 1 June 2018. The risk-based approach to AML/CFT supervision applied by the FMA. Liechtenstein is not yet fully implemented. The necessary legislative and regulatory proceedings are in progress to bring into force the measures necessary to comply with the Joint Guidelines.
At the time of production of the 2017 EBA Annual Report, the 2-month compliance notification periods of the following Guidelines had not yet ended:

- EBA/GL/2017/09 Appendix 1 Guidelines on authorisation and registration under PSD2 – Compliance Notification Deadline – 8 January 2018;
- EBA/GL/2017/10 Guidelines on major incidents reporting under PSD2 – Compliance Notification Deadline – 19 February 2018;
- EBA/REC/2017/01 amending Recommendations on equivalence of confidentiality regimes – Compliance Notification Deadline – 26 March 2018;
- EBA/REC/2017/02 Guidelines on the coverage of entities in a group recovery plan – Compliance Notification deadline – 26 March 2018;

Non-compliance on guidelines and recommendations issued in 2017, but for which the compliance notification period is not due until 2018, will be reported upon in the 2018 Annual Report.

Statistics on disclosure

The Legal Unit is the central point for dealing with requests relating to transparency and public access to documents. Within the remit of Regulation (EC) No 1049/2001, the Legal Unit provided its advice on 10 formal requests for access to information.
Key figures in 2017

FINANCE

Annual budgets avsexecution (in million EUR)

- **Total budget:** EUR 38.420 million
- **Budget execution:** 96%
- **Carry forward to 2018:** EUR 3.318 million (9% of commitments)

PROCUREMENT

- New open procurement procedures: 1
- Negotiated procedures (+EUR 15 000): 13
- EBA participation in other EU institutions’ framework contracts: 47

HUMAN RESOURCES

Total number of staff
(temporary agents (TAs), contract agents (CAs), seconded national experts (SNEs))

<table>
<thead>
<tr>
<th>Gender</th>
<th>Temporary Agents</th>
<th>Total</th>
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<td></td>
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</tr>
<tr>
<td>Male</td>
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<td>1</td>
</tr>
<tr>
<td>Total</td>
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<td>8</td>
</tr>
</tbody>
</table>

Gender balance

- **Total:** 190
- Female: 53%, Male: 47%
HUMAN RESOURCES

Geographical balance
Breakdown by nationalities of all contract types (TA, CA, SNE) present, offered and offers accepted by 31 December 2017 (total staff of 190).

EVENTS

Number of events organised by the EBA in 2017

Number of participants in 2017

Breakdown by event duration
WEBSITE
Website visits

- EBA website visits: 2.86 million (+2.69% in comparison to 2016)
- Page views: 9.04 million (+1.91% in comparison to 2016)

PRESS AND COMMUNICATION ACTIVITIES
Number of communications outputs by month

- Interviews and background briefings: 69
- Responding to external queries: 816

Breakdown of interaction with media

- Press releases: 98
- News items: 64
- Total: 162

WEBSITE
Website visits

- Press visits: 2.86 million
- Page views: 9.04 million
- Website visits: 2.86 million
- Page views: 9.04 million
GETTING IN TOUCH WITH THE EU

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EU law and related documents
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The EU Open Data Portal (http://data.europa.eu/euodp/en/data) provides access to datasets from the EU. Data can be downloaded and reused for free, both for commercial and non-commercial purposes.