

ANNUAL REPORT 2015

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Abbreviations

ABCP	Asset-backed commercial paper		Supervisor
AMA	Advanced Measurement Approaches	EEA	European Economic Area
AML	Anti-money laundering	EFC	Economic and Financial Committee
APRC	Annual percentage rate of charge	EFC-FST	Economic and Financial Committee of the Council
APR	All Price Risk	EDF	Expected Default Frequencies
AT1	Additional Tier 1	EEPE	Effective Expected Positive Exposure
BCBS	Basel Committee on Banking Supervision	EIOPA	European Insurance and Occupational Pensions Authority
BoS	Board of Supervisors	EMIR	European Market Infrastructure Regulation
BRRD	Bank Recovery and Resolution Directive	ENISA	European Union Agency for Network and Information Security
BSG	Banking Stakeholder Group	ESAs	European Supervisory Authorities
CA	Competent Authority	ESIS	European Standardised Information Sheet
CBCM	Cross-Border Crisis Management Group	ESP	European Supervisory Platform
CCR	Counterparty credit risk	ESMA	European Securities and Markets Authority
CCPs	Central Counterparties	ESRB	European Systemic Risk Board
CEBS	Committee of European Banking Supervisors	EU	European Union
CET1	Common Equity Tier 1	EUI	European University Institute
CFDs	Contracts for Difference	FAQs	Frequently asked questions
CFT	Counter-terrorist financing	FASB	Financial Accounting Standards Board
CMGs	Crisis Management Groups	FINREP	Financial Reporting Framework
COREP	Common Reporting Framework	FSAP	Financial Services Assessment programme
CMU	Capital Markets Union	FSB	Financial Stability Board
CRD	Capital Requirements Directive	FSC	Financial Services Committee
CRR	Capital Requirements Regulation	FSI	Financial Soundness Indicator
CVA	Credit Valuation Adjustment	FX	Forex
DG BUDG	Directorate-General for Budget	GDP	Gross Domestic Product
DGS	Deposit Guarantee Scheme	G-SIB	Global Systemically Important Bank
DGSD	Deposit Guarantee Schemes Directive	G-SII	Global Systemically Important Institution
EBA	European Banking Authority	HDP	High Default Portfolios
ECAIs	External Credit Assessment Institutions		
ECB	European Central Bank		
EDF	Expected Default Frequencies		
EDPS	European Data Protection		

IAS	Internal Audit Service	NII	Net Interest Income
IASB	International Accounting Standards Board	NPE	Non-performing exposure
ICAAP	Internal capital adequacy assessment process	NPL	Non-performing loan
ICT	Information and Communication Technology	NSFR	Net Stable Funding Ratio
IFR	Interchange Fee Regulation	OTC	Over-the-counter
IFRS	International Financial Reporting Standards	PAD	Payment Accounts Directive
ILAAP	Internal liquidity adequacy assessment process	PD	Probability of Default
IMF	International Monetary Fund	PRIIPs	Packaged Retail and Insurance-based Investment Products
IMM	Internal Model Methods	PSD	Payments Services Directive
IMV	Initial Market Values	PSD2	Revised Payments Services Directive
IAIS	International Association of Insurance Supervisors	PSPs	Payment Service Providers
IOSCO	International Organization of Securities Commissions	QIS	Quantitative Impact Study
ISRB	Interactive Single Rulebook	RAR	Risk Assessment Report
IRB	Internal Ratings Based	RCAP	Regulatory Consistency Assessment programme
IRC	Incremental Risk Charge	RoRC	Return on regulatory capital
IT	Information Technology	RTS	Regulatory Technical Standards
ITS	Implementing Technical Standards	RWA	Risk weighted asset
KFH	Key Function Holders	SecuRe Pay	European Forum on the Security of Retail Payments
KID	Key Information Document	SEE	South Eastern European
KRI	Key Risk Indicator	SMEs	Small and medium-sized enterprises
LCR	Liquidity Coverage Ratio	SSH	Single Supervisory Handbook
LDP	Low Default Portfolio	SRB	Single Resolution Board
LGD	Loss Given Default	SREP	Supervisory review and evaluation process
MCD	Mortgage Credit Directive	SRM	Single Resolution Mechanism
MDA	Maximum Distributable Amount	SSM	Single Supervisory Mechanism
MiFID II	Revised Markets in Financial Instruments Directive	STS	Simple, transparent and standardised
MoC	Memorandum of Cooperation	s-VaR	Stressed Value at Risk
MoU	Memorandum of Understanding	TLAC	Total loss absorption capacity
MREL	Minimum requirement for own funds and eligible liabilities	TS	Technical Standards
NCA	National Competent Authority	VaR	Value at Risk
		WGMR	Working Group on Margin Requirements

Foreword by the Chairperson

2015 marked an important milestone for the European Banking Authority (EBA) as we celebrated our first five years of existence, but most importantly as we made significant progress towards a unified regulatory and supervisory framework for banking services in the EU Single Market. We have contributed to giving life to a rather simple but at the same time ambitious idea put forward by Tommaso Padoa-Schioppa back in the early 2000s: to have technical rules defined at the EU level and adopted through EU regulations, so that they can be directly applicable to all financial institutions operating in the Single Market without any need for national implementation or possibility for additional layers of local rules.

I am very proud that the Single Rulebook in banking is now a reality, with 117 technical standards and 46 guidelines delivered in key areas, including the definition of capital and liquidity requirements as well as recovery and resolution, and deposit guarantee schemes. We have also been able to identify areas where the degree of harmonisation achieved was not sufficient — for instance, in the framework for covered bonds — or was not working as intended — as in the rules for securitisation — and we identified possible routes to establish a true level playing field, build on best practices and support well-functioning markets.

Besides our key role on the regulatory front, we have also invested a lot of work and effort in monitoring risks and vulnerabilities in the EU banking sector and pushed for enhanced disclosure and transparency, which is crucial for restoring confidence, stabilising market developments and fostering market discipline in the banking sector. We are now considered the central data hub for EU banks: supervisors, investors and the market community as a whole can access a comprehensive dataset of EU major banks in a consistent and comparable way across the Single Market.

2015 was the year of our second 'ad hoc' transparency exercise, which has been praised as a model of clarity and informative and accessible data. For the first time, the exercise was largely based on supervisory reporting data, with very limited extra burden for the banks. We have also closely followed the significant progress in the balance-sheet repair of the European banking sector. This was the very objective of the regulatory reform package, i.e. improving the quality and increasing the level of capital available in the banking system. EU banks are now stronger and better capitalised. Their average Common Equity Tier 1 ratio (CET1) reached 13.6 % in the last quarter of 2015 compared to slightly more than 9 % in 2011. And despite the persisting concerns about banks' credit quality and the still high level of legacy assets, we have also seen a decrease in the average ratio of non-performing loans (NPLs) to total loans.

Finally, we have further sharpened our contribution in the area of consumer protection, especially by deepening our policy focus on financial innovation. The mandates received in the Revised Payment Services Directive (PSD2), which also include requirements to improve operational and security requirements for payment services, are allowing us to enter a new field of work at the frontier of new technological developments and in an area where competition from new entrants could significantly benefit final users.

Going forward we will be reducing the intensity of our regulatory production and shifting our focus to understand the effects and impact of the new regulatory framework so as to make the reform package work in practice. In particular, we will devote some serious thinking to a more proportionate approach to rule-making, in which the complexity of the rules aims at matching the complexity of the business models of the banks in a consistent way across the Single Market.



Andrea ENRIA

CHAIRPERSON

With the bulk of the rules in place, we are also aware that bank failures cannot be completely eliminated and regulation should not aim at that. However, failures must be managed in a way that minimises unnecessary disruption and internalises, to the largest extent possible, the cost of the failing entity, imposing losses first and foremost to its shareholders and creditors, rather than on taxpayers. The Bank Recovery and Resolution Directive (BRRD), which was introduced at the beginning of 2015, has provided a credible set of tools with which to intervene sufficiently early and quickly in failing institutions, thus ensuring the continuity of the institution's critical functions and minimising the impact on the financial system. One of the key points of the BRRD is indeed the determination by the resolution authorities of the amount of liabilities that should be available to absorb losses in case of a crisis. And here more clarity is needed for banks to start changing their balance sheet structures in order to comply with this new loss absorption requirement. It will be essential that all relevant parties — resolution authorities, prudential and conduct supervisors, banks and investors — have a common understanding of the requirements and of the quality and amount of liabilities that in each case could be written down or converted into equity in resolution. Hence our call for enhanced transparency, reflecting our belief that if investors are to bear the costs of bank failures, they need to have access to all relevant information.

With some remaining elements of the Basel framework still to be finalised, I can say that our regulatory fatigue is far from fleeting. An important area of focus going forward will be on improving the consistency and reliability of risk-weighted assets calculated with banks' internal models. In this respect, we issued a roadmap for the implementation of the regulatory review of internal models. The request from the industry to have longer timelines to implement the regulatory changes is reasonable and has been factored into our final roadmap.

I would like to conclude on another important challenge that is hanging over us and which could have an important impact on the banking system and more in general on the integrity of the Single Market. The negotiations for a new settlement for the UK in the EU, and the imminent vote to decide whether UK citizens want to remain in or leave the EU, raise important questions. In particular, is the Single Rulebook as conceived so far fit for purpose in the new institutional set up created by the Banking Union, considering that a greater uniformity of rules might not be suitable for non-participating Member States? I am convinced that common rules and convergence in supervisory practices are essential to preserving the integrity of the EU-28 Single Market. If a multi-layered Single Rulebook is to be introduced to achieve this in practice, then it has to be managed in an integrated fashion, to avoid any regulatory difference generating barriers and uneven competitive conditions in the cross-border business between 'ins' and 'outs'.

“

I am very proud that the Single Rulebook in banking is now a reality, with 117 technical standards and 46 guidelines delivered in key areas.

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Interview with the Executive Director

1. The EBA has celebrated its first five years of activity. How would you evaluate the progress made, both in terms of outputs as well as organisation?

Over the past five years, the EBA has brought to life the Single Rulebook for the EU banking sector. We produced over 160 standards and guidelines, but we also looked at ensuring that the Single Rulebook is implemented consistently across the Union. We did so by developing appropriate tools, by giving guidance to Competent Authorities (CAs), as well as institutions, through our centralised and integrated Q&A system, which provides answers to the practical questions that supervisors and institutions may have in relation to the correct application of EU banking standards. Since 2014, the interactive Single Rulebook tool on our website has allowed all interested parties to access a comprehensive compendium of EU banking regulation. This tool links the technical standards we have developed, as well as our guidelines and related Q&As, to Level 1 text of EU legislation: the Capital Requirements Regulation (CRR), the Capital Requirements Directive (CRD IV) and the BRRD. We will soon include the Deposit Guarantee Scheme Directive (DGSD) and eventually the PSD2 to this tool.

The implications of these deliverables are far reaching, as they not only put in place a system by which EU banks are all functioning along the same regulatory lines, for the sake and ease of all potential investors, but EU consumers too can now be confident that they are protected by the same rights across the bloc. These are clearly the preconditions for ensuring that investors, institutions and consumers alike have confidence in the EU banking sector.

The resulting new single set of harmonised regulatory principles is valid across the Union and applicable to all banking institutions across the Union in the same manner. But we

still allow for a margin of manoeuvre, wherever possible, so that national authorities can deal efficiently with their own national specificities.

Just to mention a few examples of our proportionate approach to regulation: our report on the impact assessment and calibration of the Net Stable Funding Ratio (NSFR) recommended the introduction of this ratio in the EU to ensure stable funding structures. It was based on a solid analysis which did not find evidence that would point to any potential negative impacts of the NSFR in the EU, but prompted our recommendation to take into account certain EU specificities which may justify a different calibration of factors for specific transactions.

Also, in our report on qualifying securitisation we acknowledged that a one-size-fits-all regulatory approach to securitisation was no longer the best option and we recommended introducing a distinction between qualifying securitisations and other securitisations. On this we strived to come up with an approach that would mitigate those risks that are not related to the underlying exposures.

These reports show our commitment to addressing the issue of proportionality. In the NSFR report for instance we explained our intention to explore in more detail the costs of implementing the requirements for smaller banks, and in general to ensure an effective application of the principle of proportionality across the EU.

2015 also saw a leap forward in our work on the protection of EU consumers: we focused on the retail conduct of financial institutions to ensure it prevents consumer detriment and does not undermine market confidence and financial stability. We looked at all the stages of the interaction between consumers and financial institutions: from when a consumer defines



Adam Farkas

EXECUTIVE DIRECTOR

his product of choice (the pre-sale phase) to how this is sold (at the point of sale), as well as how this is followed-up afterwards (post-sale).

We developed several sets of regulatory requirements covering the products that are within our scope of action: from mortgages and personal loans to accounts and payment services; and we worked closely with the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA) for those issues that cut across financial sectors, and are relevant for the insurance and investment sectors too.

In our Guidelines on remuneration policies for sales staff, we strived not only to produce regulations that would prevent the mis-selling of financial products to consumers, but also to lay the foundations driving the EU banking industry towards conceiving banking products with the consumer's interest in mind. As such, I believe that our work will not only ensure fair treatment for EU consumers, but also provide the conditions for banking institutions to avoid the costs and impact that derive from mis-selling financial products.

In 2015, extensive work was also brought forward on the security of virtual and internet payments. From stronger consumer authentication to treatment of sensitive information and code of conducts, we strived to lay the foundations for a harmonised and safe framework, and to provide payment institutions with clarity on what EU regulation requires.

I also want to highlight how in all our tasks and working processes throughout 2015, we have endeavoured to maintain high standards not only in terms of transparency, but also in terms of reaching out to all our stakeholders, ensuring that they are informed of our work and are in a position to provide us with their

input and remarks. Last year, 44 public consultations were conducted on our regulatory products (technical standards, guidelines, etc.), in addition to the regular advice we receive from our Banking Stakeholders Group (BSG).

All other stakeholders, beyond our BSG, were also invited to submit their feedback through the public consultations that we organise on our deliverables and to participate in the public hearings that we organise at our premises in London. These are opportunities for them to better understand our work and to ask our experts all the technical explanations that may be needed regarding our deliverables.

Finally, it must also be borne in mind that we conduct costs and benefits analysis on all our regulatory proposals, as a way of ensuring that the impact of EU regulation is clear and known in the context of our regulatory work.

2. The EBA has now entered its second five-year mandate. What are the main challenges that you see ahead of you?

For the coming years, I see our workload shifting from regulatory production to understanding the impact of it. While the intensity of the regulatory production is declining — with the bulk of the Single Rulebook in banking in place — the EBA will focus its attention on ensuring that the reform package works in practice.

We are mindful of the industry's request to have longer implementation timelines. But starting with the calibration of the leverage ratio and the consistency and reliability of risk-weighted assets calculated, we intend to better understand the effects that the reforms are having on bank structures, ensuring that the new regulatory framework has not become too complex, especially for those banks with very simple business models. We see this

as part of our duty as regulators to assess simpler ways to achieve the same prudential outcomes, whenever possible.

On the side of risk assessment, we have created a new and sound data infrastructure which underlies the regular EU framework for prudential reporting. This, matched with ad-hoc data collection efforts, enhanced the EBA's analytical capabilities, resulting in regular updates on risks and vulnerabilities in the EU banking sector. Our analysis today not only captures the trends that affect the banking and financial sectors, but also provides an unprecedented level of transparency into the health of EU banks.

During 2015, we have also focused on the appropriate application of the principle of proportionality and have engaged in a wide-ranging dialogue with concerned stakeholders which culminated in a very useful workshop on this subject. The most telling example of our work in this direction was the application of the proportionality principle in the area of remuneration; following its assessment last year, we concluded that its application raises delicate legal issues and in our view will require changes to the Level 1 text.

Nonetheless, shifting priorities and emerging needs will not mean that the regulatory work is over, the drafting of technical standards remains one of our core tasks and quite a resource-intensive one. The number of staff at the EBA has not increased proportionally to the increase in workload of the past years. While the EBA has faced the daunting task of proposing wide-ranging regulatory standards in response to the financial crisis, I should also point out that our staff have worked hard towards achieving these goals, despite facing various challenges from tight deadlines to resource constraints.

3. How is the Banking Union progressing and what role do you see in it for the EBA?

The EBA has played an important role since the establishment of the Single Supervisory Mechanism (SSM), namely in providing the tools allowing for truly uniform banking supervision across the EU Single Market. From bringing common definitions of NPLs to mapping options and discretions at national level, one of our key tasks remains the promotion of the convergence of supervisory practices in the EU. This ensures that regulatory and supervisory rules are implemented equally across all Member States, as this is the basis to achieve consistent outcomes and a truly level playing field, which are the basis of the Single Market.

We are also driving forward our supervisory convergence agenda, which is essential to ensuring the integrity of the Single Market in the new institutional set up created with the Banking Union. We have stepped up our participation in and providing feedback to supervisory colleges, where an increasing number of joint decision processes and coordinated actions are taking place. Our focus has also moved to practical convergence tools, such as the supervisory handbook and training programmes for CAs' staff. We provided assistance to enhancing supervisory cooperation in times of crisis, facilitating coordination to deal with spill-over effects across borders.

In practice, this has seen us busy in improving the adequacy, relevancy and comparability of how supervisory data is disclosed and reported by EU banks. In addition, we have worked to define principles for disclosures in times of stress and to identify best disclosure practices. Our efforts in this direction have focused for instance on the disclosures requirements foreseen by the Basel Pillar 3 requirements,

which aim to develop a set of disclosure requirements that allow market participants to evaluate the capital adequacy of institutions.

Other exercises such as the EU-wide transparency exercise are indicative examples of our efforts: this exercise identified the shortcomings of EU banks in non-performing exposures (NPEs), which were for the first time published following the EBA's harmonised definition.

Disclosing these figures in user-friendly and comparable formats allows for greater understanding of the capital positions and exposures of EU banks as a whole. Throughout the coming year, we will continue to develop these transparency activities, which are fundamental to monitoring the evolution of risks, as well as to build confidence in the EU banking sector. This is an important deliverable against the requirement in our mandate to contribute to the integrity, transparency, efficiency and orderly functioning of financial markets.

4. Could you identify an area where significant new mandates are emerging for the EBA?

A key activity for the EBA in 2016 will be the development of the RTS and guidelines under the PSD2 and the Interchange Fee Regulation (IFR). In line with the objective of contributing to the stability of the financial system, for the benefit of the Union's economy, its citizens and businesses, the PSD2 attributes various tasks to the EBA.

Establishing a consistent and efficient regulatory framework to ensure the safety of payments is essential to stimulating economic growth, consumption and trade by allowing all market participants, consumers and retailers alike to enjoy with confidence the full benefits of the EU Single Market. In particular, our technical standards on strong customer authentication and secure communication are key in achieving the objective of enhancing consumer protection, promoting innovation and improving the security of payment services across the EU.

I strongly believe that ensuring the fair treatment of consumers brings in turn consumer confidence, a major driver of efficiency in any business sector, including banking.

Key publications and decisions

Figure 1: Comprehensive list of EBA publications and decisions in 2015

JANUARY	
CP	EBA consults on procedures, forms and templates for resolution planning
REP	EBA says the impact of liquidity coverage requirements for EU banks is not likely to have adverse effects
ITS	EBA publishes a revised version of its final draft of technical standards on prudent valuation
	EBA adds BRRD to its online Interactive Single Rulebook and Q&A tools
FEBRUARY	
OP	EBA advises on the definition of eligible capital
OP REP	EBA advises the European Commission on Credit Valuation Adjustment (CVA) risk
OP	EBA recommends the convergence of lending-based crowdfunding regulation across the EU
CP	EBA consults on prudential requirements for central securities depositories
MARCH	
RTS ITS OP	EBA delivers the benchmarking package
	EBA publishes new DPM and XBRL taxonomy for the remittance of supervisory reporting as of 30 June 2015
	EBA updates on future EU-wide stress tests
REP	EBA publishes the results of the Basel III monitoring exercise as of 30 June 2014
CP	EBA consults on its Guidelines on sound remuneration policies
DP	EBA puts forward preliminary proposals to improve the Internal Ratings Based (IRB) regulatory framework
OP	EBA finds the Swedish waiver on covered bonds justified
CP	EBA consults on records of financial contracts
CP	EBA, EIOPA and ESMA consult on draft technical standards on the credit quality steps for ECAs credit assessments
OP	EBA advises on resolution procedures for EU banks
CP	EBA consults on business reorganisation plans under the BRRD
	EBA updates its risk dashboard for the EU banking sector
ITS	EBA issues amended technical standards on supervisory reporting for institutions
GL	EBA publishes Guidelines on standardised fee terminology for EU payment accounts in the EU
CP	EBA consults on exposures to shadow banking

CP	Consultation Paper
DP	Discussion Paper
GL	Guidelines
ITS	Implementing Technical Standards
OP	Opinion
PH	Public Hearing
REC	Recommendation
REP	Report
RTS	Regulatory Technical Standards

APRIL	
REC	EBA issues recommendation on the equivalence of non-EU authorities for participation in supervisory colleges
	EBA publishes a revised version of its 2015 Work Programme
REP	EBA publishes the first annual Report addressed to the EU Parliament and the Council on the convergence of supervisory review practices in the EU banking sector
REP	EBA reviews the work of EU colleges of Supervisors for cross-border banking groups
CP	EBA consults on a revised data template for the identification of Global Systemically Important Institutions (G-SIIS)
MAY	
REP	EBA updates its monitoring of Additional Tier 1 (AT1) capital instruments
REP	ESAs' report shows that the main risks to EU financial market stability have intensified
GL	EBA issues final guidelines on recovery indicators
CP	EBA consults on draft technical standards on the mapping of ECALs credit assessments for securitisation positions
GL	EBA publishes final Guidelines on triggers for the use of early intervention measures
	EBA publishes updated DPM and XBRL taxonomy for remittance of supervisory reporting of funding plans and supervisory benchmarking
CP	EBA consults on technical standards on specialised lending exposures
REP	Joint Committee of ESAs publishes its recommendations on securitisation
CP	EBA consults on the valuation of derivatives in resolutions
	EBA updates list of closely correlated currencies
GL	EBA issues guidelines on the implementation of resolution tools
GL	EBA outlines its upcoming initiatives for the regulation of retail payments and its final Guidelines for the security of internet payments
GL	EBA updates guidelines on interest rate risk arising from non-trading activities
GL	EBA publishes guidelines on triggers for resolution
GL	EBA publishes guidelines on contributions and payment commitments to deposit guarantee schemes
REP	EBA publishes the final version of its updated report on the monitoring of AT1 capital instruments
JUNE	
GL OP	EBA issues final guidelines and opinions on mortgage creditworthiness assessments and arrears and foreclosure
	EBA assesses the regulatory equivalence of third countries
	EBA publishes an interactive ITS on reporting
	EBA updates its Risk Dashboard for EU banking sector
CP	The EBA consults on passport notifications for mortgage credit intermediaries
	Highlights from the Joint ESAs Consumer Protection Day 2015
RTS	EBA publishes the final draft standards on assessment methodologies to use Advanced Measurement Approaches (AMA) for operational risk
CP	ESAs consult on margin requirements for non-centrally cleared derivatives
OP	EBA issues technical advice to the Commission on contributions to the Single Resolution Fund
OP	EBA supports the removal of the Danish Krone from the ITS on currencies with constraints on the availability of liquid assets

REP	EBA publishes its 2014 Annual Report
ITS	EBA issues amended technical standards on leverage ratio disclosure and reporting
REP	EBA updates on consumer trends in 2015
DP	Joint Committee launches a discussion on Packaged Retail and Insurance-based Investment Products (PRIIPs) Key Information Documents
ITS	EBA issues amended technical standards on the reporting of liquidity coverage ratio
PH	EBA advises on the criteria and capital treatment for securitisation
JULY	
CP	EBA, EIOPA and ESMA consult on the prudential assessment of acquisitions and increases of qualifying holdings
OP	EBA supports the proposed amendments to the RTS specifying the derogations for currencies with constraints on the availability of liquid assets
REP	EBA publishes its seventh semi-annual report on risks and vulnerabilities in the EU banking sector
RTS	EBA issues final standards on processes for notifying that a banking institution is failing
RTS	EBA defines the functioning of EU banking resolution colleges
RTS	EBA publishes the final technical standards to ensure effective resolution under the BRRD
	EBA Chairman dismisses rumours over haircuts to Greek deposits
RTS	EBA publishes technical standards on independent valuers
CP	EBA consults on conditions for capital requirements for mortgage exposures
OP REP	EBA issues advice on securitisation
RTS GL	EBA publishes technical standards and guidelines on simplified obligations
RTS ITS GL	EBA streamlines intra-group financial support for banking institutions
	Call for expression of interest regarding the replacement of two members of the EBA Banking Stakeholder Group (BSG) in the category of consumers
	EBA updates on the upcoming transparency exercise and on the key features of the 2016 EU-wide stress test
GL	EBA publishes final product oversight and governance requirements for manufactures and distributors of retail banking products
REP	EBA publishes a report on macroprudential policy measures
REP	EBA identifies divergent supervisory practices in the implementation of its Guidelines on the assessment of the suitability of members of the management body and key function holders
REP	EBA publishes RWA assessment as the next step in improving the consistency of internal model outcomes
	EBA publishes key information on the systemic importance of the 37 largest banks in the EU
CP	EBA consults on draft Guidelines on cooperation agreements between deposit guarantee schemes
CP	EBA calls for evidence on SME lending and the SME supporting factor
AUGUST	
CP	EBA consults on technical standards on the exemption of non-financial counterparties from CVA risk charge
GL	EBA issues final Guidelines on passport notifications for mortgage credit intermediaries
	Board of Appeal of the ESAs dismisses an appeal by a Romanian insurer against the EIOPA decision
OP	EBA publishes technical advice on protected arrangements in a resolution situation
	EBA to conduct further analysis on Net Stable Funding Requirements (NSFR) and Leverage Ratios

CP	Consultation Paper
DP	Discussion Paper
GL	Guidelines
ITS	Implementing Technical Standards
OP	Opinion
PH	Public Hearing
REC	Recommendation
REP	Report
RTS	Regulatory Technical Standards

SEPTEMBER

REP	EBA updates on remuneration practices and high earners data for 2013 across the EU
	EBA Board of Supervisors decides on the extension of terms of office for the EBA Chairperson and Executive Director
REP	ESAs see continued risks in EU financial markets and call for rigorous action on assets and liabilities
PH	EBA to hold a public hearing on an upcoming report on the calibration of a stable funding requirement
	EBA publishes new DPM and XBRL taxonomy for the remittance of supervisory reporting
	EBA includes the Bank of Albania in EU supervisory colleges
REP	EBA publishes the results of the Basel III monitoring exercise as of 31 December 2014
CP	EBA consults on the harmonised definition of default
OP	EBA recommends to the EU Commission the retention of a maturity ladder in the ITS on additional liquidity monitoring metrics
REP	EBA looks at asset encumbrance in EU banks

OCTOBER

	ESAs set out a joint work plan for 2016
OP	EBA seeks legislative clarifications on mortgage lending values
	EBA launches a call for expressions of interest for new members of its stakeholders group
CP	EBA consults on its benchmark rate under the Mortgage Credit Directive (MCD)
	EBA publishes a work programme for 2016
	EBA updates the list of Common Equity Tier 1 (CET1) capital instruments
CP	EBA, EIOPA and ESMA consult on anti-money laundering and countering the financing of terrorism
CP	EBA consults on communication between competent authorities supervising credit institutions and statutory auditors
	EBA signs a Memorandum of Cooperation (MoC) with South Eastern European (SEE) supervisors
	EBA publishes final templates and instructions for the Quantitative Impact Study (QIS) on the definition of default
CP	EBA consults on Guidelines on how confidential information collected under the BRRD should be disclosed

NOVEMBER

	EBA publishes its Risk Dashboard which finds further increase in EU banks' capital ratios in 2015
	EBA announces the details of the 2016 EU-wide stress test
CP	EBA consults on stress tests for deposit guarantee schemes
CP	EBA consults on information exchanges between authorities regarding qualifying holdings
CP	ESAs consult on PRIIPs key information for EU retail investors
ITS	ESAs define the risk weights for credit ratings in the EU
REP	EBA publishes a benchmarking report on the use of higher ratios for variable remuneration
REP	EBA updates on remuneration practices and the use of allowances across the EU
CP	EBA consults on draft Guidelines on the treatment of CVA risk under SREP
CP	EBA consults on criteria for a preferential treatment in cross-border intragroup financial support under the LCR
	EBA announces the 5th year Anniversary Conference
	EU banks better capitalised in 2015, but NPLs remain of concern
REP	EBA provides assessment of banks' Pillar 3 reports for 2015

DECEMBER		CP	DP	GL	ITS	OP	PH	REC	REP	RTS
	ESAs update the list of identified Financial Conglomerates									
REP	EBA reports on the publication of administrative penalties on an anonymous basis									
DP	ESAs seek stakeholder input on automation in financial advice									
CP	EBA launches a consultation on FINREP using IFRS 9									
REP	EBA benchmarks approaches on scenarios in recovery plans									
CP	EBA consults on the separation of payment card schemes and processing entities under the IFR									
DP	EBA seeks input on strong customer authentication and secure communication under PSD2									
CP	EBA consults on cooperation and the exchange of information for passporting under PSD2									
CP	EBA consults on draft Guidelines on ICAAP and ILAAP information collected for SREP purposes									
REP	EBA issues recommendations for sound prudential regimes for investment firms									
CP	EBA consults on assessment methodology on the use of internal models for market risk									
REP OP	EBA identifies areas of improvement in the cooperation between EU and third countries									
GL	EBA issues final Guidelines on institutions' exposures to shadow banking entities and recommends an approach to limiting risks									
RTS	EBA defines harmonised prudential requirements for central securities depository									
	EP confirms the extension of Andrea Enria as Chairperson of the EBA									
REP	EBA recommends introducing the NSFR in the EU									
RTS	EBA issues a methodology for the valuation of liabilities arising from derivatives									
RTS	EBA delivers guidance for business reorganisation plans under the BRRD									
RTS	EBA defines the minimum set of information on financial contracts for detailed records									
REP	EBA issues advice on synthetic securitisation for Small and medium-sized enterprises (SMEs)									
OP	EBA calls for more certainty and consistency in the application of restrictions to profits pay-outs to restore capital adequacy									
CP	EBA consults on draft Guidelines on stress testing									
GL OP	EBA publishes final Guidelines on sound remuneration policies and its Opinion on the application of proportionality									
REP	EBA updates on risks and vulnerabilities in the EU banking sector									
CP	EBA consults on draft guidelines on remuneration requirements for sales staff									

Figure 2: Overview of regulatory products delivered against the EBA Work Programme

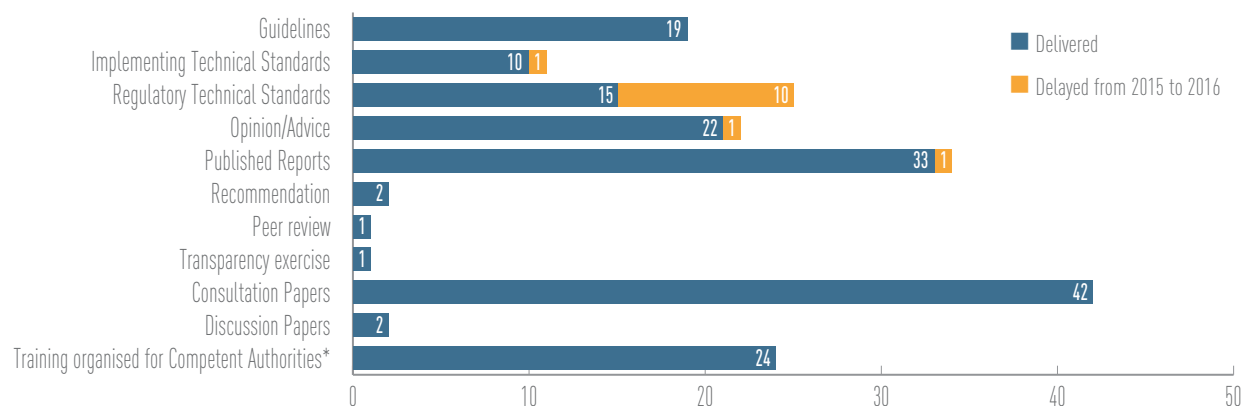
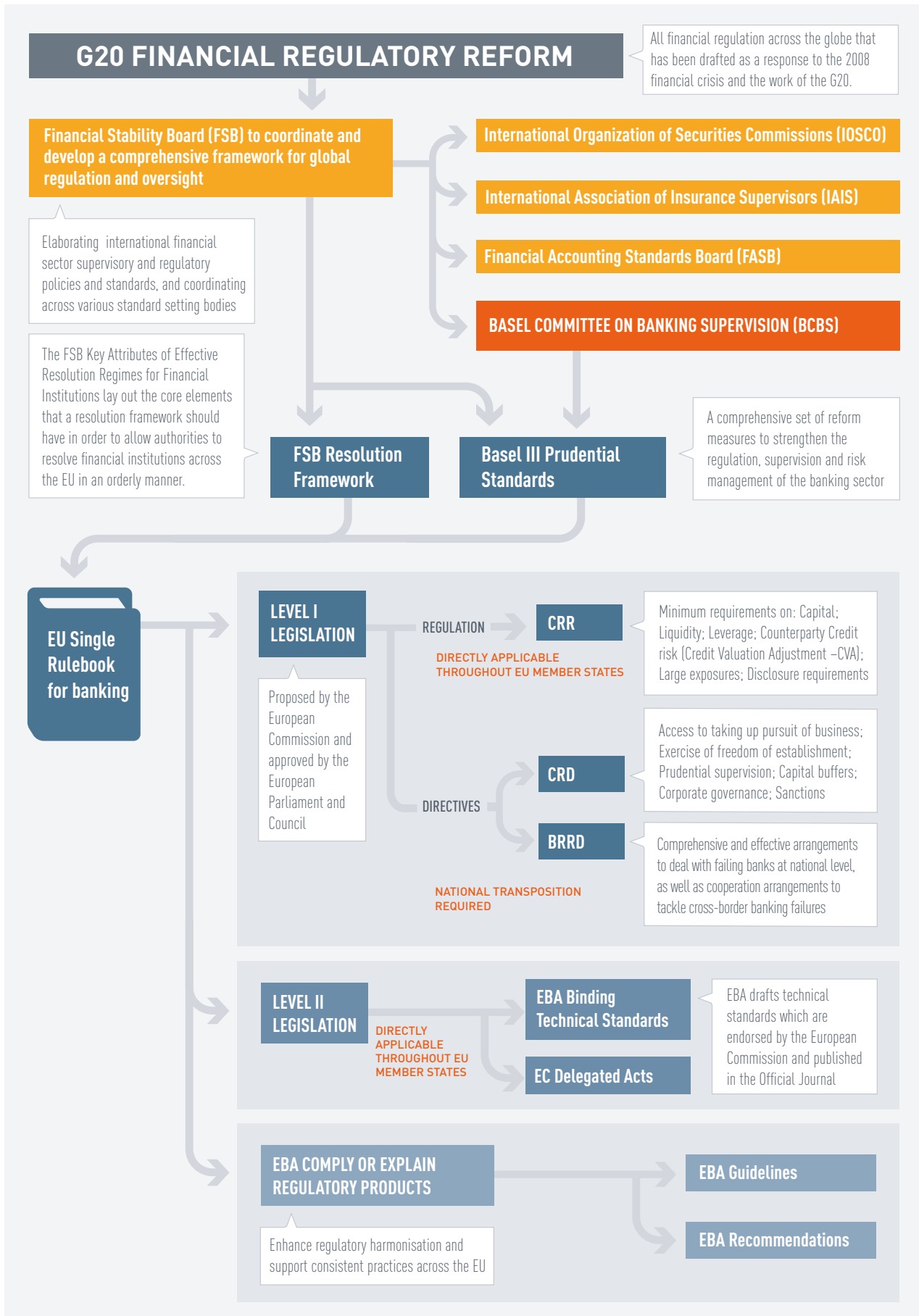


Figure 3: EU banking regulation in global perspective



Achievements in 2015

Completing the Single Rulebook and enhancing consistency in prudential regulation

In 2015, the EBA worked to complete the bulk of the G20 package, thus strengthening the Single Rulebook applicable to the EU banking sector. In achieving this aim, the EBA was actively engaged at the international level to make a significant contribution to the work of the Basel Committee on Banking Supervision (BSBS), for instance, on the Internal Ratings-

Based Approach (IRB)). The aim of this work was to ensure appropriate consistency between international and EU standards and delivered binding technical standards, reports, guidelines and opinions under the CRD/CRR in relation to a range of topics. The EBA also enhanced its monitoring of different aspects of the Single Rulebook.

Figure 4: Summary of key regulatory products in 2015

Topic	Key regulatory products completed in 2015
Remuneration	Guidelines on sound remuneration policies ⁽¹⁾
	Opinion on the application of the proportionality principle in relation to remuneration practices ⁽²⁾
	Reports on the benchmarking of approved higher ratios ⁽³⁾ and the use of allowances ⁽⁴⁾
Net stable funding requirement	Report on NSFR ⁽⁵⁾
Securitisations and covered bonds	Report and Opinion on qualifying securitisation ⁽⁶⁾
	Report on synthetic securitisation ⁽⁷⁾
IRB approach	Discussion Paper on the future of the IRB approach ⁽⁸⁾
	Consultation Paper on the Guidelines on the definition of default ⁽⁹⁾
	RTS and ITS on benchmarking portfolios ⁽¹⁰⁾
	Reports on Counterpart Credit Risk (CCR) benchmarking ⁽¹¹⁾ and Low Default Portfolio (LDP) ⁽¹²⁾
Exposures: shadow banking entities	Guidelines to set appropriate aggregate limits and tighter individual limits on institutions' exposures to shadow banking entities ⁽¹³⁾
	Report on institutions' exposures to shadow banking entities ⁽¹⁴⁾
Operational risk	RTS on the Advanced Measurement Approaches (AMA) assessment of operational risk ⁽¹⁵⁾
Own funds	Report on the monitoring of Additional Tier 1 (AT1) capital instruments issued by EU institutions ⁽¹⁶⁾
	Summary of the forms of capital instruments used by EU institutions ⁽¹⁷⁾
CRR options and national discretions	Clear and transparent information on the exercise of supervisory options and national discretions ⁽¹⁸⁾

- (1) EBA Guidelines on sound remuneration policies, <https://www.eba.europa.eu/documents/10180/1314839/EBA-GL-2015-22+Guidelines+on+Sound+Remuneration+Policies.pdf>
- (2) EBA Opinion on Proportionality, <https://www.eba.europa.eu/documents/10180/983359/EBA-Op-2015-25+Opinion+on+the+Application+of+Proportionality.pdf>
- (3) EBA benchmarking report on the use of higher ratios for variable remuneration, <https://www.eba.europa.eu/documents/10180/950548/Benchmarking+Report+on+Approved+Higher+Ratios+for+Remuneration.pdf>
- (4) EBA Report on the use of Allowances, <https://www.eba.europa.eu/documents/10180/950548/Report+on+the+Use+of+Allowances.pdf>
- (5) EBA Report on NSFR, <https://www.eba.europa.eu/documents/10180/983359/EBA-Op-2015-22+NSFR+Report.pdf>
- (6) Report and Opinion on qualifying securitisation, <https://www.eba.europa.eu/-/eba-issues-advice-on-securitisation>
- (7) EBA report on Synthetic Securitisation, <https://www.eba.europa.eu/documents/10180/983359/EBA-Op-2015-26+EBA+report+on+synthetic+securitisation.pdf>
- (8) EBA Discussion Paper on the future of the IRB approach, <https://www.eba.europa.eu/regulation-and-policy/credit-risk/discussion-paper-on-the-future-of-the-irb-approach>
- (9) EBA Consultation Paper on harmonised definition of default, <https://www.eba.europa.eu/-/eba-consults-on-harmonised-definition-of-default>
- (10) EBA Regulatory and Implementing Technical Standards on benchmarking portfolios, <https://www.eba.europa.eu/regulation-and-policy/other-topics/regulatory-and-implementing-technical-standards-on-benchmarking-portfolios>
- (11) EBA Report on CCR benchmarking 2014, <https://www.eba.europa.eu/-/eba-publishes-rwa-assessment-as-the-next-step-in-improving-consistency-of-internal-model-outcomes>
- (12) EBA Report on the 2014 Low Default portfolio (LDP) exercise, <https://www.eba.europa.eu/-/eba-publishes-rwa-assessment-as-the-next-step-in-improving-consistency-of-internal-model-outcomes>
- (13) EBA Guidelines on limits on exposures to shadow banking, <https://www.eba.europa.eu/regulation-and-policy/large-exposures/guidelines-on-limits-on-exposures-to-shadow-banking>
- (14) EBA Report on institutions' exposures to shadow banking entities, <https://www.eba.europa.eu/regulation-and-policy/large-exposures/guidelines-on-limits-on-exposures-to-shadow-banking>
- (15) EBA RTS on the AMA assessment of operational risk, <https://www.eba.europa.eu/regulation-and-policy/operational-risk/regulatory-technical-standards-on-assessment-methodologies-for-the-use-of-amas-for-operational-risk>
- (16) EBA Report on the monitoring of AT1 capital instruments issued by EU institutions <https://www.eba.europa.eu/documents/10180/950548/EBA+Report+on+the+Additional+Tier+1+instruments+++May+2015.pdf>
- (17) Updated list of CET1 capital instruments, <https://www.eba.europa.eu/-/eba-updates-list-of-common-equity-tier-1-cet1-capital-instrumen-1>
- (18) Options and national discretions, <https://www.eba.europa.eu/supervisory-convergence/supervisory-disclosure/options-and-national-discretions>



Contributing to a sounder remuneration framework

The remuneration framework for EU institutions has been strengthened through the legislative changes introduced by the CRD IV which came into force on 1 January 2014. These changes promote a sound balance between performance-based variable remuneration that is paid out over time and is subject to the potential application of malus and claw-back to ensure its alignment with banks' risk exposures, and a sufficient level of fixed remuneration that caters for the independence of staff in applying sound judgment. These elements and the part of pay-out of variable remuneration in non-cash instruments are crucial for ensuring appropriate alignment with the bank's performance in the long term.

To ensure that remuneration frameworks within the EU do not impede the level playing field and, as mandated by the CRD, in 2015 the EBA developed **Guidelines on sound remuneration policies** ^[19] which will enter into force on 1 January 2017. In parallel, the EBA issued an **Opinion on the application of the proportionality principle** ^[20] calling for a legislative change that allows for waivers of some remuneration provisions in situations where their application would be too burdensome compared to their prudential benefit.

The Guidelines also supplement the EBA's RTS on identified staff ^[21] and set out the identification process for staff that has a material impact on an institution's risk profile. The remuneration of these staff members must comply with specific requirements that ensure the alignment between risk and performance-related variable remuneration. The Guidelines also specify the criteria for the mapping of all remuneration components into either fixed or

variable pay that are the basis for calculating the ratio between the variable and the fixed components of remuneration.

The Opinion on the application of the proportionality principle provides an analysis of the costs and regulatory burden that would be triggered by an implementation of a deferral scheme and the payout of remuneration in non-cash instruments even by small and non-complex institutions. The EBA highlights the specific limitations that exist in particular for cooperative and savings banks with regard to the use of shares or share-linked instruments as part of the remuneration packages. The EBA also observes that for smaller amounts of variable remuneration the costs for applying these specific requirements appear not to be appropriately balanced by the prudential benefit.

The Opinion was accompanied by a report that points out the material differences between Member States in implementing and applying remuneration provisions. The EBA found that 21 Member States have implemented waivers that differ significantly in terms of their scope and applicable thresholds, leading to an uneven playing field in terms of competition for the most talented staff. The EBA notes that it is important that a clear legal basis to allow for waivers is created in an explicit way. This is the only way through which a sufficient level of harmonisation in the application of waivers can be ensured.

The Opinion and other information on remuneration trends and practices, submitted to the European Commission and the European Parliament and Council, should inform the review of the remuneration provisions under Article 161(2) of the CRD which is due by 30 June 2016.

[19] EBA Guidelines on sound remuneration policies, <https://www.eba.europa.eu/regulation-and-policy/remuneration/guidelines-on-sound-remuneration-policies>

[20] EBA Opinion on the application of proportionality, <https://www.eba.europa.eu/documents/10180/983359/EBA-Op-2015-25+Opinion+on+the+Application+of+Proportionality.pdf/588134c4-c438-4315-9b61-4fb5b4e67b15>.

[21] EBA RTS on the criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile under Article 94(2) of Directive 2013/36/EU, [https://www.eba.europa.eu/documents/10180/526386/EBA-RTS-2013-11+\(On+identified+staff\).pdf](https://www.eba.europa.eu/documents/10180/526386/EBA-RTS-2013-11+(On+identified+staff).pdf)



Promoting a common approach to the calculation of the net stable funding requirement and the treatment of liquidity risk

In October 2014, BCBS published a standard on the NSFR^[22]. This ratio is aimed at ensuring that banks maintain a stable funding profile in relation to the composition of their assets and off-balance-sheet activities in the context of a one-year time horizon. The standard is expected to be implemented in 2018. The ratio responds to the inappropriate bank funding structures observed during the crisis, which were shown to be highly sensitive to contractions in the short-term funding markets and led to bank failures, costly interventions, and contributed to a decline in bank lending to the real economy.

The CRR envisages that the Commission shall assess the appropriateness of implementing the NSFR in the EU and, if appropriate, by end 2016 submit to the European Parliament and the Council a legislative proposal on how to ensure that institutions have a stable source

of funding. For this, the Commission needs to take into account the EBA Report on NSFR under Article 510 of the CRR^[23] which was issued by the EBA in December 2015.

The EBA NSFR Report contains a proposal of calibration of the NSFR (where the Basel NSFR is the benchmark without prejudice to relevant European specificities) and an assessment of its impact on the risk profile of EU institutions by business model (looking particularly into how non-compliant banks can be expected to restructure their balance sheets to meet the requirement), financial markets (with particular attention to the impact on investment in financial assets, different funding markets, secured funding, market making, investment banking activities and the risk capacity of a financial system), the economy and bank lending (particularly lending to small and medium-sized enterprises (SMEs), trade finance and pass-through financing models). The Commission specifically requested the inclusion of a proportionality analysis on the assessment of the implementation of the NSFR in the EU.

^[22] Basel III: the net stable funding ratio, Basel Committee on Banking Supervision, <https://www.bis.org/bcbs/publ/d295.pdf>

^[23] EBA Report on NSFR under Article 510 of the CRR, <https://www.eba.europa.eu/documents/10180/983359/EBA-Op-2015-22+NSFR+Report.pdf>

The EBA NSFR Report shows that most EU credit institutions were already complying with the NSFR. In particular, 70 % of the banks in the sample ⁽²⁴⁾ were compliant and only 14 % had NSFRs below 90 %. The shortfall of non-compliant banks in this sample in December 2014 amounted to EUR 595 billion. This significant shortfall was mainly concentrated in a small fraction of banks, where, in some cases, significant and difficult adjustments could be expected.

The EBA did not find strong statistical evidence suggesting a detrimental effect of the NSFR on bank lending nor did it find evidence that the NSFR would result in significant distortions in financial assets, markets or trading book positions in banks even though some adjustment in prices could arise and therefore certain assets or activities might be affected. Rather, the suggested calibration of the NSFR is expected to protect against the existing funding risks entailed by these transactions.

Therefore, the EBA recommends the introduction of the NSFR in the EU for credit institutions on a solo and on a consolidated basis under the general approach to liquidity of the CRR regarding waivers, preferential treatment

and sub-consolidated requirements. In general terms, the Report considers that the Basel calibration fits well in the European scenario except for some European specificities which are highlighted. In this regard, the Report includes specific proposals of calibration of the NSFR for trade finance transactions, central counterparty clearing houses, residential loans guaranteed by banks or insurers and other specific cases.

Developing a sound and prudent framework for securitisations and covered bonds

The EBA made a significant contribution to the development of the European securitisation regulatory framework in 2015 and carried out several significant projects. In particular, the Commission’s proposals on reviving the securitisation markets in the EU ⁽²⁵⁾, which represent the main pillar of the Capital Markets Union (CMU) project, are substantially based on the EBA advice and recommendations of July 2015.

⁽²⁴⁾ The sample comprised 279 institutions.

⁽²⁵⁾ Securitisation, European Commission, http://ec.europa.eu/finance/securities/securitisation/index_en.htm

Figure 5: The EBA’s role in the Capital Markets Union (CMU)

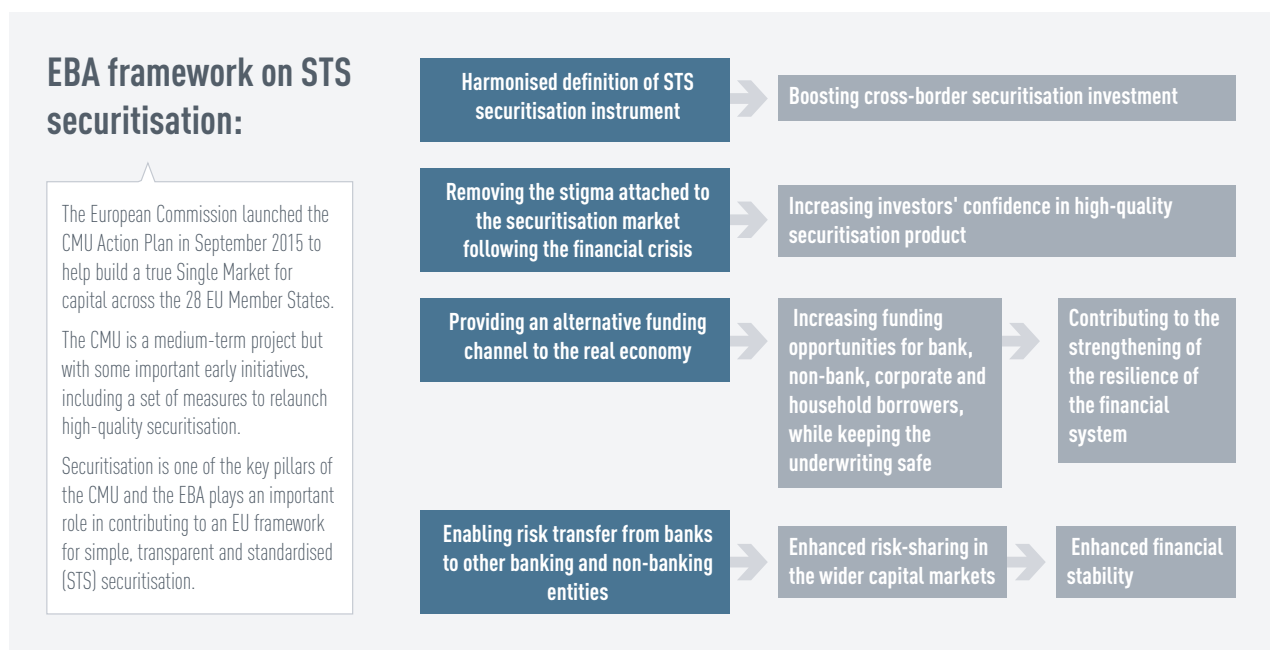
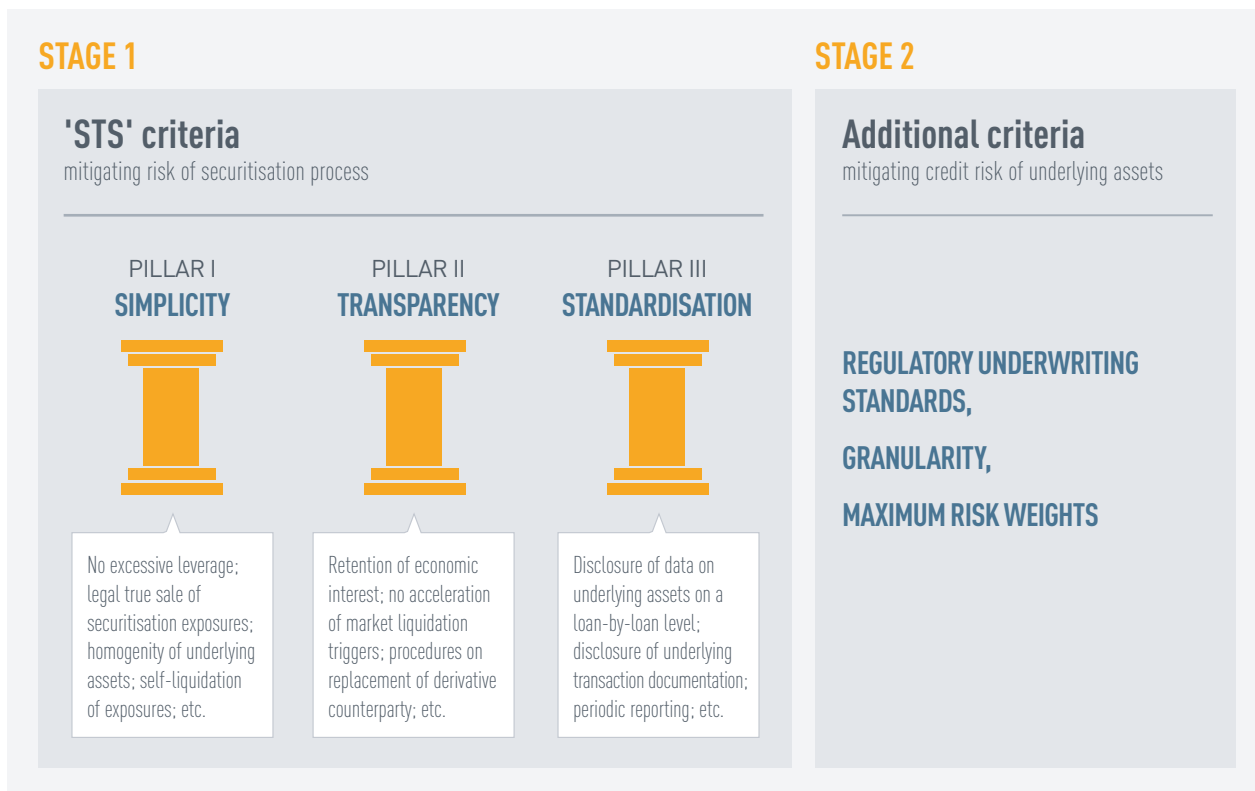


Figure 6: EBA framework for preferential treatment of ‘qualifying’ traditional securitisation: 2-stage approach



In 2015, the EBA’s work on securitisation largely focused on the development of two pieces of comprehensive technical advice to the Commission, covering traditional ‘true sale’ securitisations and synthetic securitisations. The Reports, which are the result of an extensive EBA analysis and include sets of specific recommendations, were published in July and December 2015 respectively and represent a major input to the Commission’s regulatory work. In addition, the EBA consulted stakeholders on the mapping of credit ratings assigned to securitisation products into the credit quality steps that allocate capital requirements under the CRR, and published recommendations, jointly with ESMA and EIOPA, on risk retention, due diligence and disclosure requirements on securitisation across sectors.

The EBA report on the **framework for preferential capital treatment of ‘qualifying’ traditional securitisation**, issued in July 2015 ^[26], represents an important milestone in the securitisation regulation in the EU. In the report,

^[26] EBA Report and Opinion on qualifying securitisation, <https://www.eba.europa.eu/-/eba-issues-advice-on-securitisation>

backed by an empirical analysis, the EBA designed a framework for simple, transparent and standardised (STS) securitisations and suggested a more risk-sensitive approach to the capital treatment of such ‘qualifying’ securitisation transactions.

Firstly, the EBA set out a list of specific criteria which aim to ensure that securitisation transactions are simple, transparent and standardised. The well-defined criteria were designed to capture and mitigate the major drivers of risks of a securitisation not related to the underlying exposures, as illustrated by the crisis. Secondly, the EBA proposed that exposures underlying the STS securitisations should meet criteria ensuring their minimum credit quality, as an additional important safeguard of the overall quality of these products.

Finally, the EBA suggested that securitisations meeting both STS and credit quality criteria qualify for lower capital charges compared to those foreseen by the Basel 2014 securitisation framework, so as to recognise the relative lower riskiness of such transactions, while always keeping the regulatory capital within a perimeter of prudential surcharge.

The EBA report covered both long-term and short-term securitisations, and provided specific criteria for the short-term asset-backed commercial paper (ABCP) products to address their distinct characteristics, taking into account that these products represent a major source of short-term financing for SMEs.

The Commission has embraced the EBA's recommendations in its proposals for a new securitisation framework, presented in September 2015. The EBA believes that restructuring the securitisation market along the lines of the EBA's recommendations should increase investors' confidence in the securitisation products and remove the perceived stigma attached to the whole securitisation market following defaults of low quality and risky products in the financial crisis. Ultimately, this should contribute to strengthening the resilience of the European financial system by providing an alternative funding channel to the real economy and by enhancing risk-sharing within financial markets. SMEs in particular would benefit from restarting the securitisation markets: on the demand side, the securitisation would enhance the issuance of ABCP products, an important source of financing for SMEs, while on the supply side, it would allow banks to provide more loans from the released capital, and in general to finance the loans to SMEs more easily.

Within the global discussion on reviving securitisation markets, the EBA has contributed to the joint work of the BCBS and the International Organization of Securities Commissions (IOSCO) culminating in the publication of the BCBS/IOSCO criteria for identifying simple, transparent and comparable securitisation instruments. Following the publication of the report on traditional securitisations in July 2015, the EBA conducted an assessment of the synthetic securitisation market in the EU and published a report in December 2015^[27], which analyses the main specificities of the synthetic securitisation technique and a wide range of existing market practices in this area.

At the time of writing the report, there was no agreed global standard on the preferential treatment of 'qualifying' synthetic securitisations that comply with certain criteria. Also, the Commission's proposed amendments to

the CRR, in the context of the new securitisation framework, introduced an element of differentiation in the treatment of synthetic securitisation transactions, allowing the assignment of preferential capital treatment to specific synthetic transactions only. Taking into account these facts and other evidence available, in its report the EBA supported the limited extension of the preferential capital requirements to senior tranches of balance-sheet securitisations backed by SME loans and retained by originator banks, as suggested in the Commission's proposal, and noted that a substantial widening of the scope to cover for a qualifying 'STS' synthetic securitisation framework would be premature at this stage.

Moreover, the EBA suggested specific technical amendments to the Commission's proposal. It advised the Commission to amend the list of criteria determining the preferential capital treatment of these 'qualifying' synthetic securitisations to take into account the specificities of the synthetic securitisation compared to traditional securitisation. It also advised the Commission to extend the qualifying treatment to those transactions where private investors provide credit protection in the form of cash deposited with the originator institution. The EBA acknowledges the specificities of this market segment and the lack of global standards and stands ready to continue its analysis of synthetic securitisation, to inform possible future regulatory developments in the EU.

Substantial analysis has also been conducted in relation to **transparency of securitisation markets in the EU**. The EBA worked together with ESMA and EIOPA to assess existing disclosure requirements relating to due diligence, supervisory reporting and risk retention rules for securitisation products in the EU. The report^[28], produced under the remit of the ESAs' Joint Committee and published in May 2015, identified inconsistencies in the existing Level 1 and Level 2 regulations and proposed a number of recommendations to address such inconsistencies. The report also served as the ESAs' response to the public consultation launched by the Commission in the context of the CMU.

^[27] EBA report and opinion on synthetic securitisation, <https://www.eba.europa.eu/-/eba-issues-advice-on-synthetic-securitisation-for-smes>

^[28] ESAs' Joint Committee report on transparency of securitisation market in the EU, <https://www.eba.europa.eu/-/joint-committee-of-esas-publishes-its-recommendations-on-securitisation>

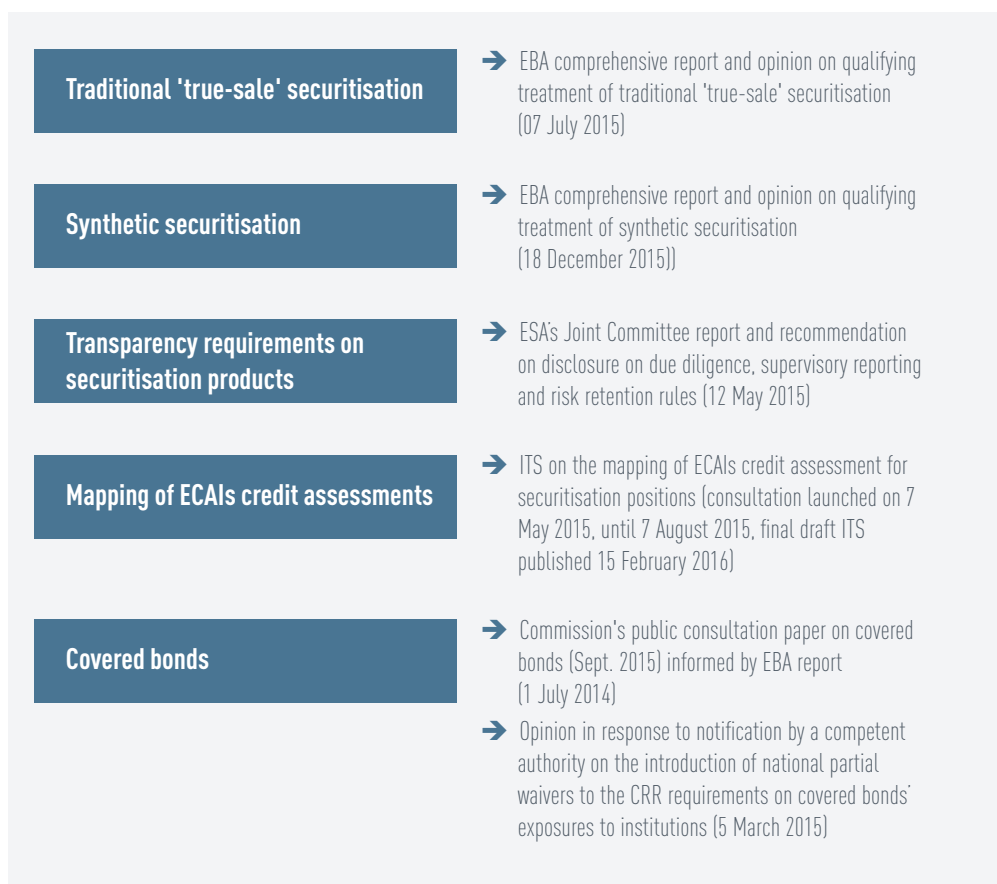
To complete the overview of the EBA's work in relation to securitisations, the EBA notes the intensive work carried out in 2015 on the development of **ITS on the mapping of ECAIs credit assessment for securitisation positions**. The consultation paper was published in May 2015 and the final draft ITS were submitted to the Commission in February 2016 ⁽²⁹⁾, which, after several years, brought to a close the project. These draft ITS specify the 'mapping', or correspondence, between credit ratings and credit quality steps, that determine the allocation of appropriate risk weights to credit ratings issued by ECAIs on securitisations, where the Standardised Approach or the Internal Ratings Based (IRB) approach for securitisations are used. The draft ITS will allow

the credit ratings of all registered credit rating agencies to be used for the purposes of calculating the institutions' capital requirements and by forming a part of the Single Rulebook in banking. This will enhance regulatory harmonisation across the EU.

The EBA welcomed the Commission's public consultation initiative on **covered bonds** published in September 2015, which borrows heavily from the report on EU-covered bond frameworks and capital treatment that the EBA had published in 2014. In 2015, the EBA also published an Opinion in response to a notification by a CA on the introduction of national partial waivers to the CRR requirements on covered bonds' exposures to institutions. The EBA keeps monitoring regulatory developments both at an EU and national level, with a view to following up during 2016, on the mandate on best practices received by the European Systemic Risk Board (ESRB).

⁽²⁹⁾ Final draft ITS on the mapping of ECAIs credit assessment for securitisation positions, <https://www.eba.europa.eu/regulation-and-policy/external-credit-assessment-institutions-ecai/its-on-the-mapping-of-ecais-credit-assessments-for-securitisation-positions>

Figure 7: List of main EBA products on securitisation and covered bonds in 2015



Enhancing the framework for an IRB approach

The EBA believes that the IRB Approach is a risk-sensitive way of measuring capital requirements that encourages institutions to improve their risk management practices. However, the high degree of flexibility in the IRB framework has compromised comparability in capital requirements across institutions and led to a lack of trust in IRB models among market participants. In order to enhance comparability of capital requirements in accordance with the IRB Approach the EBA has initiated a broad review of the IRB Approach. In March 2015, the EBA published a **Discussion Paper on the future of the IRB Approach** ^[30] outlining its proposed plans to ensure comparability of capital requirements while preserving their risk sensitivity, with the overall aim to restore trust in internal models. The EBA also specified in the paper that it will coordinate its regulatory review with the international IRB regulatory developments by the Basel Committee, and that the proposed implementation timelines may have to be amended to accommodate the respective international policy developments.

The EBA proposed focusing its efforts on the following aspects:

- reviewing the regulatory framework in order to provide the necessary clarification on the main definitions and technical aspects of the IRB models ^[31];
- enhancing supervisory consistency through the implementation of common assessment methodology and greater reliance on the EBA's benchmarking exercises;
- increasing transparency through the development of standardised comparable templates.

The EBA proposed that the regulatory review of the IRB Approach should be performed in four phases based on the prioritisation of topics: assessment methodology, definition of default, risk parameters and credit risk mitigation.



In this context, the EBA considered it crucial to finalise the **RTS on the assessment methodology of the IRB Approach** ^[32] as this will enhance consistency in supervisory practices and will ensure that the implementation of all subsequent changes envisaged in Phases 2 to 4 will be assessed according to the same criteria.

High priority was also given to the work related to the definition of default under Phase 2. The rationale for such prioritisation was that the definition of default is the basis concept for the estimation of risk parameters and wide ranges of practices in this area lead to undue variability in risk parameters across banks. This work resulted in the publication of the detailed and comprehensive **Consultation Paper on the Guidelines on the definition of default in September 2015** ^[33]. As it is expected that the changes in the definition of default might lead to significant changes in the rating systems, the EBA simultaneously launched a Quantitative Impact Study (QIS) in order to measure the potential impact of the proposals. The work on the definition of default will continue in 2016 based on the results of the QIS and responses received during the consultation period.

^[30] EBA Discussion Paper on the future of the IRB Approach, <https://www.eba.europa.eu/regulation-and-policy/credit-risk/discussion-paper-on-the-future-of-the-irb-approach>

^[31] EBA Report on comparability of Risk Weighted Assets (RWAs) and pro-cyclicality, <https://www.eba.europa.eu/-/eba-publishes-reports-on-comparability-of-risk-weighted-assets-rwas-and-pro-cyclicality>

^[32] EBA RTS on assessment methodology for IRB approach, <https://www.eba.europa.eu/regulation-and-policy/credit-risk/regulatory-technical-standards-on-assessment-methodology-for-irb-approach>

^[33] Consultation on EBA Guidelines on the application of the definition of default, <https://www.eba.europa.eu/-/eba-consults-on-harmonised-definition-of-default>

BOX 1 — EBA's work on enhancing the consistency of RWAs

In 2015, the EBA continued to work on the consistency of Risk Weighted Assets (RWAs) in the EU banking sector, running benchmarking exercises of banks' internal models. This work is an important supervisory tool, whose objective is to identify any material differences in RWA outcomes, understand the sources of such differences and, if needed, formulate the necessary policy solutions to enhance convergence between banks and to improve disclosure.

The EBA submitted to the Commission the final draft RTS and ITS, which specify the framework for EU institutions and CAs to carry out the annual supervisory benchmarking foreseen by the CRD. The EBA also issued its response to a call for advice by the Commission on the benchmarking process.

During 2015, the EBA developed the supervisory benchmarking exercises for credit and market risk and published two reports in July 2015, the LDP report and the CCR and CVA risk report. This was a continuation of the work initiated in the last quarter of 2014.

As part of the benchmarking exercise, the EBA computed benchmarks on counterparty credit risk and provided detailed feedback and bank-specific reports to the CAs. These reports allowed each CA to compare its own submission with the EU sample, detecting the most relevant deviations and anomalies. In particular, the benchmarking tool enabled the CAs to compare the outcomes of institutions' internal models and to identify the non-risk-based variability across firms.

For the LDP exercise, a key finding from the analysis was that three-quarters of the observed differences could be explained by two factors:

the proportion of defaulted exposures in the portfolio and the portfolio mix between large corporate, sovereign and institutions exposures. Defaulted exposures are riskier exposures by definition and there is a wide range of practices in relation to the definition of default and the treatment of defaulted assets, which explains an important part of the observed differences. In addition, large corporate exposures, on average, are also riskier than sovereign or institutions exposures. Therefore, the portfolio mix explains part of the observed differences. The remaining differences are due to a number of other reasons, including differences in bank-specific factors from risk management practices, which were detailed in the July 2015 report. The LDP exercise provided EU benchmarks for different risk parameters (e.g. EU averages of PDs and LGDs for the same type of portfolios, among other indicators). This analysis also found that if the internal IRB parameters estimated by institutions were replaced with the EU benchmarks, the risk weight would increase on average by about 7.5% (exposure-weighted average) in the large corporate portfolio and by 6.6% for the total portfolio. However, this impact is influenced by different collateralisation status and deal structure and should not be interpreted as an underestimation due to potentially inadequate modelling.

As for CCR and CVA, the analysis found that the variability across banks was especially observed on initial market values (IMV) estimated by the Internal Model Methods (IMM) for equity and foreign exchange over-the-counter (OTC) derivatives and on Effective Expected Positive Exposure (EEPE).

Exposures to shadow banking entities

In 2015, the EBA published **Guidelines to set appropriate aggregate limits and tighter individual limits on institutions' exposures to shadow banking entities** which carry out banking activities outside a regulated framework under Article 395(2) CRR ⁽³⁴⁾. **A data collection exercise was also carried out and an EBA Report published on institutions' exposures to shadow banking entities** which shed light on the links between the asset side of institutions' balance sheets and the shadow banking sector ⁽³⁵⁾.

The rationale for the Guidelines is two-fold: first, shadow banks are generally not subject to prudential regulation (or are not subject to the same standards of prudential regulation) as core regulated entities such as institutions, and do not provide access to deposit guarantee schemes to investors nor do they have access to central bank liquidity. Exposures to shadow banks are, therefore, inherently risky and thus worthy of specific limits to be set by institutions as part of their internal processes. Second, institutions' exposures to shadow banks can be of concern for macroprudential reasons, in particular financial stability and regulatory arbitrage concerns.

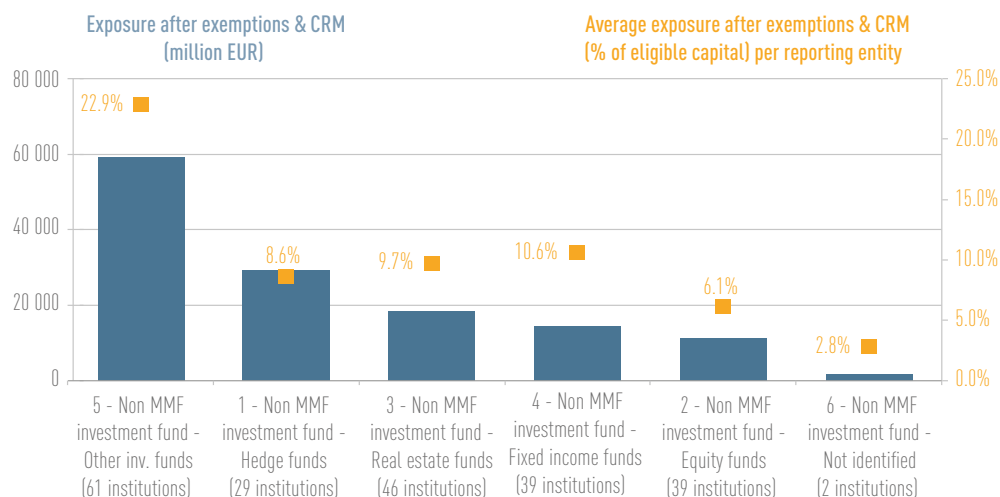
The Guidelines set out the qualitative approach that institutions should adopt for the purposes of monitoring and setting appropriate internal individual and aggregate limits for exposures to 'shadow banking entities'. For the first time in an EU legislative context, a definition of 'shadow banking entity' is given as no definition is provided in the CRR ⁽³⁶⁾. This was informed by the data collection exercise which considered the relevance of institutions' exposures to certain types of regulated and unregulated entities (the so-called 'shadow banking entities') and the impact of potential limits. 184 institutions (169 credit institutions and 15 investment firms) from 22 Member States participated in the exercise, which was the first of its kind.

⁽³⁴⁾ EBA Guidelines on limits on exposures to shadow banking, <https://www.eba.europa.eu/regulation-and-policy/large-exposures/guidelines-on-limits-on-exposures-to-shadow-banking>

⁽³⁵⁾ EBA Report on institutions exposures to shadow banking entities, <https://www.eba.europa.eu/regulation-and-policy/large-exposures/guidelines-on-limits-on-exposures-to-shadow-banking>

⁽³⁶⁾ The Guidelines define 'shadow banking entities' as undertakings that carry out one or more 'credit intermediation activities' (defined as bank-like activities involving maturity transformation, liquidity transformation, leverage, credit risk transfer or similar activities) and are not 'excluded undertakings'. 'Excluded undertakings' are entities specified in the Guidelines that are subject to an appropriate and sufficiently robust prudential framework. For example, the following are 'excluded undertakings': credit institutions, investment firms, insurers and entities established in third countries which are subject to prudential requirements which are considered to be equivalent to those applied in the Union, and entities subject to consolidated prudential supervision (whether as a result of EU legislation, applicable national legislation or an equivalent third country legal framework). Money Market Funds and AIFs employing leverage on a substantial basis according to Article 111(1) of Commission Delegated Regulation (EU) 231/2013 are not excluded from the scope of the definition of 'shadow banking entity'.

Figure 8: Exposures (in million EUR) and average of aggregate exposures (as a percentage of eligible capital) by type of non-MMF investment funds (considering only individual exposures equal to or above 0.25 % of eligible capital)



Monitoring the implementation of the Single Rulebook

In 2015, the EBA stepped up its monitoring work in relation to the Single Rulebook, in particular in relation to remuneration practices, own funds and supervisory options and discretions.

Regulatory monitoring in the area of remuneration

The EBA is continuously monitoring the development of remuneration practices and trends. In particular, it followed up on the use of role-based allowances and the corrective measures taken by CAs in response to the publication of its Opinion on allowances in October 2014. In November 2015, the EBA reported its findings in a follow-up report ^[37], which was submitted to the Commission.

As part of its benchmarking activities, the EBA collected information regarding the application of Article 94(1)(g)(ii) of the CRD. In line with this provision, the ratio between the variable and the fixed component of the total remuneration shall not exceed 100 %, with the possibility for Member States to allow shareholders to approve a higher maximum level of the ratio (up to 200 %). The benchmarking report published in November 2015 ^[38] showed that the majority of Member States have implemented this possibility. The extent to which institutions made use of this possibility and the corresponding market share differs significantly between Member States.

In total, 214 EU institutions increased the applicable maximum ratio to 200 %, while 97 % of them did not make use of this possibility and many institutions have not yet seen the need to increase the maximum ratio. However, in terms of the total remuneration, the main amount is primarily driven by the remuneration of non-identified staff. Taking only into account the Member States where this possibility has been implemented, the institutions that made use of a higher maximum level of the ratio represent in total 53 % of the aggregated

balance sheet of institutions and 48 % of the total number of staff. However, overall, institutions apply ratios above 100 % only to 63 % of the identified staff and, in particular, to staff active in the area of investment banking.

In line with the CRD, the EBA annually collects data on staff that has received remuneration of EUR 1 million or more in the previous financial year. In addition, detailed information is also collected in particular on the remuneration of identified staff from over 100 groups and institutions. The EBA publishes the aggregated data and a benchmarking analysis on an annual basis. Both data collections aim at ensuring a high level of transparency regarding the remuneration practices within the Union. The EBA analysed the data submitted by CAs for the year 2013, the analysis of data for 2014 will be published in another report in early 2016.

The EBA observed that the percentage of high earners who are identified staff increased over time to 59 % in 2013, leading to a better alignment of remuneration and risk. In 2014, the percentage further increased to 87 % following the publication of the RTS on identified staff. The number of high earners decreased from 3,530 in 2012 to 3,219 in 2013. This reflects a number of factors, including movements in the exchange rate between the euro and pounds sterling.

The benchmarking results show that remuneration practices within Member States and between institutions were not sufficiently harmonised, even if different levels of remuneration paid in Member States are taken into account. In particular, the application of deferral and payout in instruments differs significantly. This is mainly driven by differences in the application of waivers. Overall, it can be observed that the average ratio of variable to fixed remuneration paid to identified staff was slightly reduced from 108 % in 2012 to 104 % in 2013 with a stronger decrease in 2014 to 65 %. The EBA will continue to monitor remuneration trends and practices in 2016.

^[37] EBA Report on the use of allowances, <https://www.eba.europa.eu/documents/10180/950548/Report+on+the+Use+of+Allowances.pdf>

^[38] EBA Benchmarking Report, <https://www.eba.europa.eu/documents/10180/950548/Benchmarking+Report+on+Approved+Higher+Ratios+for+Remuneration.pdf>

Monitoring supervisory options and discretions

CAs shall publish information on how options and discretions are exercised under Union law (Article 143(1)(b) of the CRD). This information shall be sufficient to enable a meaningful comparison of the approaches adopted by the CAs of the different Member States in order to assess consistency of approaches.

For that purpose, the EBA developed an ITS on the format structure, contents list and annual publication of — among other items — the options and discretions available in Union law. These ITS clarify that an option refers to a situation in which Member States are given a choice on how to comply with a given provision, selecting from a range of alternatives laid down in EU law while a discretion refers to a situation in which CAs or Member States are given a choice on whether to implement, or not a given provision. Based on this framework, in 2015, the EBA **published clear and transparent information on the exercise of CRD and CRR options and discretions between CAs and Member States** ⁽³⁹⁾.

In addition to enhanced transparency concerning the exercise of options and discretions, the EBA is of the view that it is necessary to monitor the impact of these options and discretions on the EU prudential framework in order to ensure a level playing field. For that purpose, the EBA engaged in peer reviews on the exercise of these options and discretions, together with CAs. Due to this preliminary analysis, it appeared that the exercise of options and discretions is more significant for Members States and CAs participating in the Single Supervisory Mechanism than for non-participating Member States. Taking this into account, the European Central Bank (ECB) launched a wide exercise of harmonisation of the exercise of options and discretions within its jurisdiction in 2015.

Monitoring own funds

In May 2015, the EBA published an update of its October 2014 **Report on the monitoring of AT1 capital instruments issued by EU institutions** with a view to promoting effective compliance with the criteria for AT1 instru-

⁽³⁹⁾ Options and Discretions, EBA, <http://www.eba.europa.eu/supervisory-convergence/supervisory-disclosure/options-and-national-discretions>

ONGOING WORK

In 2016, the EBA will propose some standardised terms and conditions for AT1 issuances which will cover the prudential parts of the terms and conditions. The EBA will also continue its monitoring of AT1 issuances and update the report as appropriate to take account of developments (in relation to terms and conditions).

ments ⁽⁴⁰⁾. To inform the Report, the EBA reviewed 15 issuances for a total amount of EUR 21.4 billion.

The EBA found that, although AT1 instruments tend to be complex instruments, issuances are in general quite standardised, except for features, which are by nature institution-specific (such as the definition of the triggers at different levels depending on the structure of the group concerned). Nevertheless, a number of provisions of existing AT1 instruments were identified that should be avoided in the future or where revised wording should be used in order to avoid uncertainty. This is particularly the case with some provisions related to regulatory calls, share conversion mechanisms, contingent clauses, and covenants.

To support the necessary further convergence in practice, the Report contains guidance on a number of topics that were identified in the 2014 Report and which needed further work (such as the triggers for regulatory calls). The Report also introduces guidance on new issues that were identified in the course of the 2015 review (for instance on tax gross up and pre-emption rights for existing shareholders).

As regards CET1, in 2015 the EBA published, pursuant to Article 26 of the CRR, an **updated list of the forms of capital instruments that are used by EU institutions** ⁽⁴¹⁾. The EBA will continue its assessment of potential new forms of instruments in 2016 and update the list, where necessary.

⁽⁴⁰⁾ EBA Report on the monitoring of AT1 capital instruments, <https://www.eba.europa.eu/-/eba-updates-its-monitoring-of-additional-tier-1-capital-instruments>

⁽⁴¹⁾ Updated list of CET1 capital instruments, <https://www.eba.europa.eu/-/eba-updates-list-of-common-equity-tier-1-cet1-capital-instrumen-1>

Concluding the regulatory framework for effective recovery, resolution and deposit guarantee schemes

Finalising the Single Rulebook on recovery planning, early intervention and resolution triggers, and developing coherent resolution policies

In the area of crisis management, the EBA embarked on a demanding work programme to assist all EU Member States to enhance their recovery, resolution and depositor protection regimes. The work programme focused on: (i) concluding and enhancing the regulatory framework through level 2 standards and guidelines; (ii) promoting supervisory convergence, including through supervisory and resolution colleges; and (iii) contributing to an ambitious resolution agenda at a global level. The establishment of the Banking Union added additional responsibility to the EBA in its role as coordinator for the whole of the EU.

Under its mandates stemming from the BRRD and the Deposit Guarantee Scheme Directive (DGSD), since 2014 the EBA has finalised 33 Technical Standards, Guidelines and Opinions in the context of resolution and depositor protection. These level 2 products conclude the harmonised regulatory framework and provide support to supervisory and resolution authorities and Deposit Guarantee Schemes (DGS) across the EU in the practical application of the rules. Despite the budget constraints and the unprecedented workload, the EBA was able to meet the ambitious deadlines set by the BRRD. Nearly all of these products have already been published and delivered to the Commission but not all of them have been endorsed yet. This delay can be partly explained by a decision of the Commission to bundle regulatory products so as to reduce regulatory complexity. Only a limited number of products mandated by the BRRD have not been delivered yet.

Bank Recovery and Resolution Directive

The regulatory products drafted by the EBA under its BRRD mandates cover a wide range of matters of importance to the resolution framework.

All recovery plans developed by institutions according to the BRRD should include a framework of indicators identifying points at which appropriate recovery actions may be taken, which shall be agreed by CAs when assessing recovery plans. The EBA Guidelines on the minimum list of qualitative and quantitative recovery plan indicators specify the requirements for developing this framework and provide a list of indicators which should be included by each institution in its recovery plan.

The BRRD introduced a common set of early-intervention measures that complement existing supervisory powers and measures, established under the CRD and applied according to the Supervisory Review and Evaluation Process (SREP) Guidelines (EBA/GL/2014/13). In order to harmonise practices and in light of a relevant BRRD mandate, the EBA published the final Guidelines on triggers for use of early intervention measures, which rely on the outcomes of SREP scores.

According to the BRRD, no resolution action can be taken towards an institution unless the CA (or under certain conditions also a Resolution Authority) determines that this entity is failing or likely to fail. This determination should be made on the basis of circumstances and objective elements specified in the EBA Guidelines on failing or likely to fail, which aim at ensuring continuum between ongoing supervision, early intervention and resolution.

In the area of resolution planning, the EBA Opinion on critical functions adds clarity to the definition of this key resolution planning concept and ensures its consistency with the Financial Stability Board (FSB) Key Attributes of Effective Resolution Regimes.

To ensure proportionality in recovery and resolution planning, the BRRD allows authorities to apply a simplified obligations regime in certain cases. In this regard, the EBA published Guidelines establishing a set of mandatory and optional indicators, against which Competent and Resolution Authorities should assess the impact of the failure of an institution to determine its eligibility for simplified obligations.

With respect to the bail-in tool, a further RTS on the contractual recognition of bail-in aims to ensure the cross-border effectiveness of the bail-in power, where liabilities within the scope of the write-down and conversion powers are governed by the law of a third country. Furthermore, the EBA Opinion on exclusions from bail-in improves the transparency and

predictability of the use of authorities' discretion for market participants, by specifying the criteria according to which certain groups of liabilities may be excluded from the application of the write-down power. Finally, the EBA undertook substantial work in the area of the minimum requirements for own funds and eligible liabilities (MREL) — see box 2.

BOX 2 — The EBA's work on minimum requirement of eligible liabilities (MREL)

An area of particular importance in the EBA's Work Programme in 2015 was the draft final RTS on the setting of MREL. Under the BRRD, MREL serves to ensure that an institution has available, at the point of failure, sufficient liabilities eligible to be written down or converted to absorb the losses. MREL is set by Resolution Authorities on a case-by-case basis for each institution as a robust minimum.

The EBA technical standards further specify the criteria applicable to this requirement and thus aim at a significantly higher degree of harmonisation, while respecting the diversity of institutions and business models across the EU. In particular, the standards clarify how each institution's capital requirements should be linked to the amount of MREL needed to absorb losses and how, to the extent necessary and given the resolution plan for the institution, a firm should be recapitalised after resolution. Resolution Authorities should, as a default, rely on supervisory assessments for the degree of loss that a bank needs to be able to absorb and the capital it needs to operate. This means that banks which are simpler, less risky and easier to resolve should expect to have lower MREL requirements.

MREL shares the same goal as the FSB's proposals on total loss absorption capacity (TLAC) for Globally Systemically Important Institutions (G-SIIs) and also many of its most important design features. The EBA final draft RTS on MREL seek to apply MREL in a way which is compatible with the FSB's TLAC proposal.

The draft RTS were finalised and submitted to the Commission in July 2015. In December 2015, the Commission proposed a number of amendments. In particular, it proposed to amend the reference to institutions of significant importance. Although the EBA agreed with the Commission's argument that a delegated regulation cannot set a harmonised level of MREL, it dissented from some Commission amendments, believing that they would reduce the effectiveness of the RTS in promoting smooth cooperation and convergence when setting MREL. The Commission's delay in dealing with the MREL RTS has had a knock-on impact on the EBA's finalisation of related Guidelines, and it is imperative for authorities and market participants that clarity is brought to this important area soon. Following the Opinion of the EBA, the Commission may decide to adopt the draft RTS with its proposed amendments.



Mark Adams

POLICY EXPERT IN THE
RESOLUTION UNIT

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One of the key elements of the new resolution framework is that Resolution Authorities will have to set requirements to make sure that banks which fail in the EU can either be closed down or recapitalised by their own shareholders and creditors, but not by taxpayers.

All EU banks will have a Minimum Requirement for Own Funds and Eligible liabilities (MREL). This will be set on a case-by-case basis according to the criteria, which are described in the BRRD and have been developed further in our technical standards. This requirement will be more demanding for the largest globally systemic banks, and will be set in a way which implements the G20 agreement on total loss absorbing capacity (TLAC). Smaller banks, or banks which are easier to resolve, should face considerably lower requirements.

We are now working to review the MREL framework to assist the Commission in making sure all the details of the G20 TLAC agreement can be fully implemented. But our standards and recent policy guidance from Resolution Authorities mean that banks can already start planning for MREL now.

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The Standards on loss absorption are complemented by the ongoing work on valuation. The EBA has consulted on the RTS for valuations in recovery and resolution. In parallel, the EBA finalised the RTS on the valuation of derivatives for bail-in purposes. The draft RTS provide Resolution Authorities with a series of tools to carry out a swift and objective valuation of derivative liabilities. The RTS apply a statutory methodology based on the costs or gains that would be incurred by the counterparty in replacing the contract.

Deposit Guarantee Scheme Directive

Following the entry into force of the new DGSD in July 2015, the EBA also helped to develop the rules for strengthening the resilience of Deposit Guarantee Schemes (DGSs) and improving depositors' access to compensation. All DGSs in Europe have to be pre-financed by credit institutions. The EBA Guidelines on contributions to DGSs and on payment commitments will help ensure consistent application of the new funding mechanisms provided for in the DGSD.

ONGOING WORK

The EBA will advise the Commission on its proposal to implement the TLAC standard in EU legislation. The EBA will submit a report on the implementation of MREL as set out in Article 45(18) of the BRRD. The report will consider a number of policy questions including the consistency between MREL and other international standards.

The EBA Guidelines on risk-based contributions set out methods for calculating ex ante contributions to DGSs that are adjusted to the risk profile of each credit institution, thus promoting risk discipline and eliminating moral hazard. In line with the DGSD, the Guidelines on payment commitments further specify the option for DGSs to authorise credit institutions to contribute, up to 30 % of the required contributions, in the form of secured commitments, fully compliant with EU law on financial collateralisation. This ensures that DGS access to funding is properly guaranteed by low risk assets that can be quickly mobilised, in case the institution does not meet its commitment.

The EBA Guidelines on cooperation agreements between DGSs, to be concluded in February 2016, will facilitate the entry into cooperation agreements between DGSs and ensure that such agreements include the necessary elements to ensure effective cooperation, particularly in the event of an institution's failure. Ongoing work

regarding depositor protection includes draft Guidelines on stress tests of DGSs, on which the EBA published a consultation paper in 2015, with a view to promoting the quality and consistency of approach in these areas.

Supporting cooperation between authorities in crisis management

The recent financial crises have shown that cross-border cooperation and coordination are vital for the effective resolution of failing institutions within the EU banking sector. The BRRD requires the establishment of resolution colleges to carry out a variety of tasks by relevant authorities, including reaching joint decisions on the development of plans, setting MREL, carrying out resolvability assessments and identifying impediments. The EBA contributed to the effectiveness of this process by creating a framework for cooperation of Resolution Authorities and other authorities



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2015 marked a milestone for the protection of EU depositors, as the new Directives on Bank Recovery and Resolution (BRRD) and on Deposit Guarantee Schemes (DGSD) entered into force. This reform reaffirmed the right of EU depositors to have their deposits absolutely guaranteed up to EUR 100.000 in liquidation and extended it to orderly resolution cases. Depositors in the EU will have access to their funds more rapidly and Deposit Guarantee Schemes (DGSs) will be subject to compulsory funding rules.

Here at the EBA we have fleshed out this legislative framework by rolling out the new rules for resolution and guarantee schemes. I am confident that in the coming years, through the implementation of the funding guidelines and the conclusion of the cooperation agreements, EU citizens will really be able to reap the benefits of the reform of deposit guarantee schemes. If and when the proposal for a European Deposit Insurance Scheme for the Banking Union is adopted, we will remain dedicated to facilitating convergence across the entire EU. We will continue to play our role as a watchdog, so that we can ensure that the common rules are appropriately applied across the Single Market. As required by the DGSD, we will also act as a hub for collecting information on DGSs such as covered deposits, available funding means and risk based calculation methods.”

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in colleges. This framework provides for active information exchange and encourages effective dialogue among authorities responsible for banks and their subsidiaries/significant branches, as well as providing assistance in reaching joint decisions.

The EBA sets out in a final draft RTS how these colleges should function, covering amongst other matters, the establishment and governance of resolution colleges, the development

of resolution plans within them and the execution of resolution schemes. The involvement of the Resolution Authorities of third countries, both in resolution planning and in group resolution, is also taken into account. The EBA's work in this area is informed by its experience in EU supervisory colleges and home-host cooperation in supervision. Its involvement will also allow the EBA to act as mediator in cases of disagreement on, for instance, joint decisions in resolution matters.

BOX 3 — New legislative proposals in the area of resolution

The pan-EU regulatory framework on bank resolution is still evolving. In their laws transposing the BRRD, some Member States have introduced a number of tools to make resolution more effective, such as structural measures to separate activities that are perceived as risky from more traditional activities, or changes to the ranking of liabilities and deposits in insolvency. The EBA contributed to the Commission's evaluation of these proposals and to promoting an exchange of views between Member

States on these issues, stressing the need for measures to make resolution more credible and feasible. In addition, the EBA provided various opinions on technical matters to the Commission, such as on the building up of the Single Resolution Fund.

In November 2015, the Commission issued a proposal for a European Deposit Insurance Scheme. The EBA will monitor the ongoing discussions and any possible implication on its existing products and activities.

Strengthening supervisory convergence and ensuring the consistent implementation of supervisory and regulatory policies across the EU

The EBA's primary mandate is to ensure a common Rulebook across the Single Market. However, if supervisory practices and outcomes diverge, this poses a potential risk to the integrity of the Single Market, its level playing field and the effective oversight of cross-border groups operating within the Single Market. Against this backdrop, convergence of supervisory practices across the EU is key to ensuring good-quality supervision, based on compliance with the Single Rulebook leading to consistent and comparable supervisory outcomes.

In 2015, two important themes of supervisory convergence work were: 'Pillar 2', in view of the anticipated implementation date of the EBA guidelines on common methodologies for the supervisory review and evaluation process (SREP) on 1 January 2016; and 'Recovery Planning', given the entry into force of the BRRD at the start of the year and the requirements on supervisory colleges.

The EBA work on supervisory convergence was developed through the assessment of supervisory practices, the production of supervisory policy and the EBA training programme.

Assessing supervisory convergence

In promoting and monitoring supervisory convergence it is necessary to assess the progress made. As such, the EBA focused its efforts on the production of its first annual Report on supervisory convergence as well as on assessing the functioning of supervisory colleges and convergence in recovery planning.

The Report on supervisory convergence, published in April 2015, highlighted that since 2011 there has been significant progress in supervisory colleges' interaction and a sustained supervisory convergence process. However, further steps are needed to neutralise the risks to the Single Market, in particular in some aspects of supervisory methodologies, supervisory practices and supervisory outcomes which, in the context of joint decisions on capital and liquidity, continue to pose some challenges, although in a minority of cases.

Figure 9: Key topics for supervisory attention in 2015



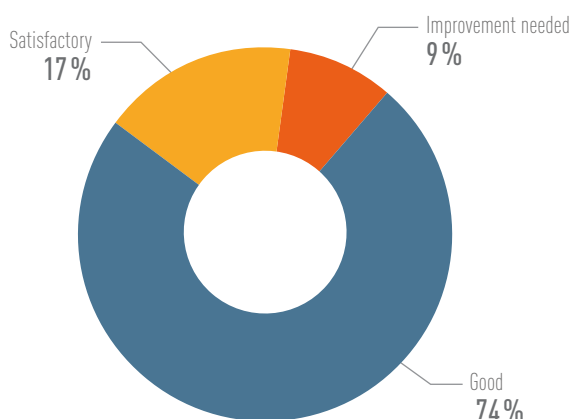
A significant step forward in supervisory convergence across Member States is expected following the delivery of the EBA's main policy products around supervision, as they are implemented by CAs.

Furthermore, as part of its convergence mandate, the EBA is tasked with contributing, promoting and monitoring the efficient, effective and consistent functioning of colleges of supervisors across the EU. Colleges of supervisors play an important role in the effective and consistent supervision of cross-border groups and have been a vital forum for the coordination of supervisory activities, sharing information and reaching joint decisions.

On an annual basis, the EBA establishes a Supervisory Colleges Action Plan. In 2015, the plan provided a set of objectives and deliverables expected to be performed within the supervisory colleges' framework. Additionally, the EBA, capitalising on its work on risks and

ONGOING WORK

The EBA will publish its next Report on supervisory convergence in 2016.

Figure 10: Frequency of college interactions

vulnerabilities in the EU banking sector, issued a list of key topics (see Figure 9) for particular supervisory attention to encourage college discussions on these relevant issues. It also set tasks to support and monitor colleges in these processes.

The year 2015 has been a milestone with a number of changes, from college membership as a result of the establishment of the SSM at the end of 2014, to the impact of new regulatory requirements on supervisory colleges, namely the technical standards on the functioning of colleges, which inevitably resulted in the re-establishment of colleges. The EBA provided support to colleges during this transition in the form of dedicated training events, bilateral engagement with CAs and regular feedback to consolidating supervisors.

The EBA, in its public report on the functioning of colleges, concluded that overall, the requirements of the 2015 EBA Colleges Action Plan have been fulfilled to a reasonable extent. Significant efforts and improvements were observed for various aspects of colleges' work, such as the frequency of interaction between college members (see Figure 10) and the quality of college meetings, but, with substantial drawbacks in others, such as aspects of joint decision processes, the quality of joint decision documents and requests for individual recovery plans outside the joint decision process. Each aspect was scored against the EBA 3-level scoring system of good, satisfactory and improvement needed.

In 2015, CAs put effort into improving both the quality of the group risk assessment reports and the process for their development. In gen-

eral, good quality group risk assessments were observed, with all material risks being captured which enabled a shared understanding of the risks to which groups are exposed.

Although the overall assessment of the quality of capital and liquidity joint decisions demonstrated marginal positive trends (see Figure 11), some recurrent issues remained a challenge in 2015. In particular, the incomplete information on the decomposition of the SREP capital requirements by risk type significantly affected the reasoning of the joint decision. Challenges also remained with regard to the formulation of the additional capital requirements and the interplay between the SREP capital requirements and combined buffers or capital planning expectations.

Finally, with the introduction of the BRRD and the requirement for supervisors to assess BRRD compliant recovery plans and for EU cross-border banking groups to reach a joint decision for the first time on the assessment of the group recovery plan, in 2015, the EBA devoted resources to monitoring this process and providing support and guidance to supervisors to fulfil these tasks.

The vast majority of the monitored colleges began this formal joint decision process in 2015. A substantial challenge faced by a number of supervisory colleges was the treatment of pre-existing individual recovery plans, or dealing with requests from host authorities for individual plans for subsidiaries of cross-border banking groups which were made outside the joint decision process established in the BRRD.

To support the process, the EBA provided support to supervisory colleges on the process and assessment of recovery plans with bilateral guidance to consolidating supervisors as they prepared the timelines and set procedures. The guidance focused on the timeframes envisaged by the BRRD for assessing recovery plans and the authorities that should be involved in the assessment process. The EBA also contributed to the assessment by providing comments on the recovery plan for consideration by the consolidating supervisors. Furthermore, the EBA provided guidance on other issues like requests for individual recovery plans, calibration of triggers within the framework of the recovery plan indicator, coverage of individual entities and the mapping of core business lines and critical functions.

To ensure consistent approaches, the EBA provided templates for the assessment and joint decision on recovery plans contained within the Single Supervisory Handbook (SSH) chapter on the supervisory assessment of the recovery plans published in 2014. It was found that these non-binding templates were widely used in 2015 and helped supervisors to structure their assessments and navigate through the different parts of the recovery plan. Furthermore, although in 2015 most colleges were still at an early stage of the assessment process, those that started drafting joint decisions used the EBA non-binding template for this purpose as a reference.

The EBA also provided support to CAs in their assessments of institutions' recovery plans by publishing two thematic comparative reports on recovery plans across the EU. The first Report, which was published in March 2015, focused on core business lines and critical functions and the second, published in December 2015, analysed recovery plan scenarios.

The thematic comparative analysis on recovery plan scenarios was undertaken on 19 recovery plans across the EU. Scenario analysis is a key part of a sound recovery plan, mainly because it allows institutions and supervisors to test the feasibility of recovery options and the adequacy of recovery indicators. Overall, the EBA analysis has shown that in a number of recovery plans the approach chosen for the scenario analysis is already broadly in line with the BRRD requirements while others remain at a less advanced stage. Among the latter, areas for improvement included the relevance and severity of the scenarios and their impact on the relevant recovery indicators.

Finally, recognising the special nature of conduct risk and its potential prudential impact on institutions, the EBA undertook a stocktaking exercise of current supervisory practices in this area. The topic of conduct risk has been discussed at the EBA table at different levels and on several occasions and the EBA has been encouraging supervisors to pay particular attention to this topic for some time now, including adding conduct risk to the EBA 2015 Colleges Action Plan as a specific topic for supervisory attention.

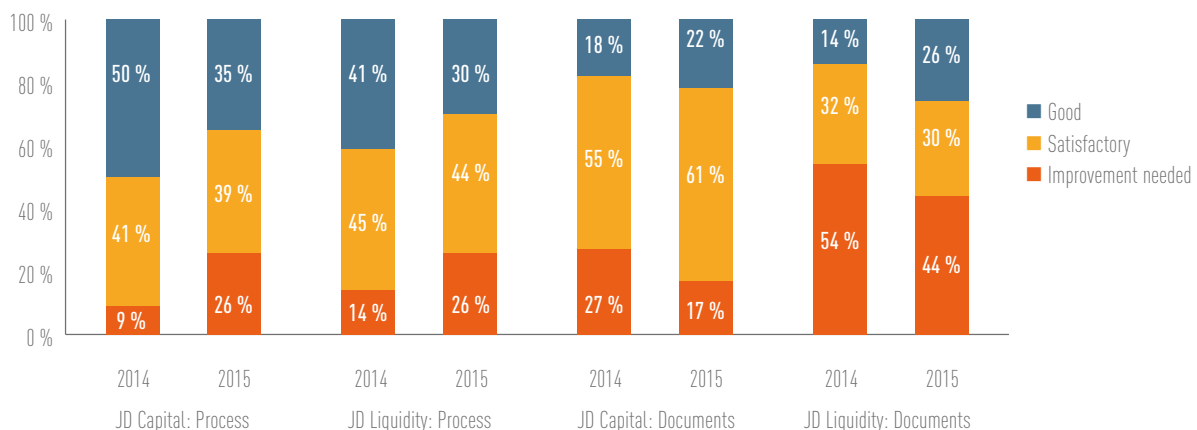
In the context of the EBA's strategy on supervisory convergence, a stock-take of supervisory practices and supervisory responses to conduct risk was organised in 2015 focusing on four areas:

- conduct risk losses and institutions' approaches on conduct risk
- supervisory responses
- supervisory assessment
- cooperation among supervisors and external auditors

ONGOING WORK

The EBA will aggregate the findings on conduct risk in 2016 to have an overview of the conduct risk incidents that occurred in institutions across the Union in the period 2013 to mid-2015, along with an analysis of incidents and practices (type of incidents) that led to the respective conduct risk losses.

Figure 11: Assessment of the process and content of joint decisions



Promoting convergence through supervisory policy

Supervisory convergence in the EU is underpinned by a number of EBA policy documents. In 2015, the EBA policy work on supervisory convergence focused on Pillar 2 issues and so, with the aim of addressing ambiguity and bringing about a higher degree of convergence, the EBA published an Opinion on the interaction of Pillar 1, Pillar 2 and combined buffer requirements and on the maximum distributable amount (MDA). Additionally in the context of Pillar 2, the EBA is currently developing policy on Information and Communication Technology (ICT) risk, the outcome of which will complement the EBA SREP guidelines. Finally, the EBA is also elaborating policy on simplified obligations for recovery planning under the BRRD.

Firstly, in December 2015, the EBA — prompted by the EBA Guidelines on common SREP methodologies on the articulation of Pillar 2 capital requirements and the evident ambiguity deriving from the reading of the related CRD provisions leading to different supervi-

sory approaches with regard to identification of the trigger and calculation of the MDA — published an Opinion on the MDA. The Opinion clarifies the provisions of Article 141 of the CRD limiting the distribution of interim and year-end profits to pay dividends, variable remuneration and AT1 payments in case of breaches of the combined buffer requirement. The Opinion aims to contribute to the consistent application of the Single Rulebook and to supervisory convergence in relation to the stacking order of capital requirements avoiding detrimental effects to the Single Market and to capital markets.

The Opinion restates the relevance of the stacking order of capital requirements (Pillar 1 minimum requirements + Pillar 2 additional own funds requirement + Combined Buffer requirements — see Figure 12) for both triggering the breach of the combined buffer and for the MDA calculation and invites CAs to consider requiring institutions to disclose MDA-relevant capital requirements or at least not prevent or dissuade any institution from disclosing this information. The Opinion also emphasises on the need for CAs to consider



Slavka Eley

HEAD OF THE SUPERVISORY
CONVERGENCE UNIT

“

Ensuring that banking supervision practices are convergent and consistent across the EU is one of the cornerstones of the integrity of the Single Market, as well as a major aspect of the EBA mandate. Despite the existence of common rules, divergent supervisory practices and outcomes pose a potential risk to the effective oversight of cross-border groups and the development of a level playing field in financial services.

Our work on supervisory convergence is easily explained by the three “Cs”: Compliance with the Single Rulebook, Comparability of supervisory practices and Consistency of supervisory outcomes. With my team, we work hard to achieve a situation where EU institutions with similar risk profiles and business models can be assessed by the various CAs in a consistent manner, and are also subject to comparable supervisory expectations, actions and measures.

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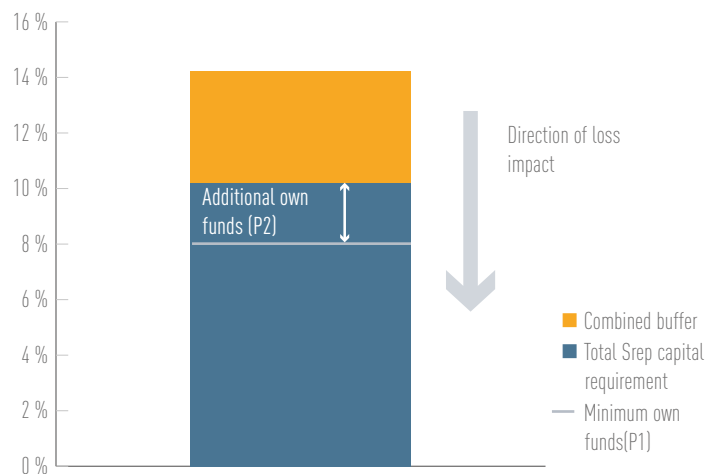
any restrictions to distribution arising from the application of the MDA framework, jointly with the assessment of the Capital Conservation Plan (Article 142 of the CRD) and of the potential funding risks relating to restricting AT1 payments. The Opinion also advises the Commission to increase the clarity of the relevant CRD provisions and to reconsider the automatism of the restrictions, in particular with regard to AT1 instruments.

It is expected that the Opinion will support the consistent application of distribution restrictions in order to promote a level playing field across the Single Market and that it will provide greater certainty for banks' capital planning needs. Furthermore, transparency in Pillar 2 outcomes should provide clarity for investors in banks.

Furthermore, building on the operational risk component of the common SREP guidelines, in 2015, the EBA initiated its policy work with CAs on assessing ICT risk in banks, with the aim of bringing about consistency in supervisory understanding and supervisory approaches to assessing this risk. Although the benefits of using ICT in banks are generally recognised and clear-cut, the ICT risks in banks are much less known and, therefore, often underestimated.

ICT risks like outsourcing to the cloud and assessing ICT risk as a prudential risk in banks were the focus in 2015. A joint workshop by the EBA with the European Union Agency for Network and Information Security (ENISA), on the use of cloud services in the EU banking sector brought together information technology (IT) supervisors from EU CAs, IT officers from EU banks and large cloud service providers. The participants engaged in panel discussions on the challenges faced by banks in adopting the cloud, views on existing guidance for supervisors in monitoring the risks faced in the deployment of cloud services as well as on the lessons learned on the safe implementation of cloud services by three large providers. The outcomes of this work will be finalised in 2016. The EBA is also developing guidelines for supervisors for assessing ICT risk as part of the SREP, which will complement the existing guidance under operational risks in the guidelines on common SREP methodologies, to be published in 2016.

Figure 12: Stacking order of own funds requirements



Finally, to support its policy work on simplified obligations for recovery planning, the EBA, jointly with the ECB, organised a workshop in June 2015 on the implementation of simplified obligations for recovery planning under Article 4 of the BRRD. The main aim of the workshop was for SSM and non-SSM CAs to share their initial approaches and evolving practices in applying simplified obligations for recovery planning, as well as to identify the main challenges and areas of emerging divergences.

The workshop covered the methodology for determining the eligibility for simplified obligations, the subsequent reduced scope for the content of recovery plans, and the assessment of simplified recovery plans. The work done to date on this topic will be the basis for further EBA policy work on simplified obligations.

Promoting supervisory convergence through EBA training programmes

The EBA’s work on supervisory convergence also looks to common EU training on key elements of supervisory practices.

In 2015 the EBA, notwithstanding the cut in its sought 2015 training budget, provided a record number of 24 training programmes to staff of CAs, an increase of 41 % from training offered in 2014 reaching more than 1,000 participants (see Figure 13). The EBA training in 2015 (see Figure 14) consisted of 16 sectoral training programmes, of which two were cross-sectoral and co-organised with EIOPA and five were soft skill training. 1,018 participants in total attended EBA training programmes in 2015, with some candidates placed on the waiting lists for training sessions that were oversubscribed.

The majority of the EBA’s sectoral training programmes, 13 in total, were held at the EBA’s office in London however following increasing demand from individual CAs, four trainings were repeated locally in order to avail these to a large number of their staff in a more cost effective manner. These training programmes were: ‘Assessment of recovery plans and joint decision on group recovery plans’ held at the Bank of Slovenia which was open to participants from other CAs; and the following which were delivered to ECB staff in Frankfurt: ‘Supervisory Assessment of Recovery Plans’, ‘Common European SREP framework’ and

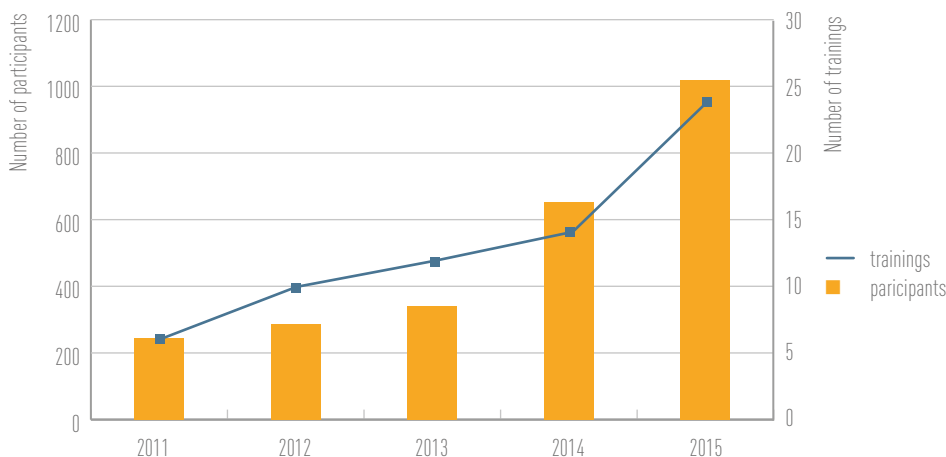
‘Supervisory Colleges Functioning’. 50 participants attended each of the trainings at the ECB. All costs pertaining to the trainings were kindly met by the hosting authorities.

Furthermore, for the first time in 2015, demand was such that two EBA training programmes were held concurrently on 26-27 November 2015, ‘Guidelines on Security of Internet Payments’ in London and ‘Supervisory Colleges Functioning and Capital and Liquidity Joint Decisions’ in Frankfurt. This meant that the EBA was able to meet demand and at once reach a larger number of staff at the CAs.

Coinciding with the entry into force of the BRRD in January 2015 and the subsequent national transposition, training in the area of recovery planning was needed in order to provide relevant stakeholders with a common understanding of the regulatory framework for assessing recovery plans by EU CAs. The EBA, therefore, provided such training to both EU supervisors and industry participants.

In 2015, the EBA staff and the European University Institute (EUI) began collaborating for both physical and online trainings. The EUI invited speakers from Queen University, Canada and Imperial College, London to the EBA’s annual seminar on ‘Market Risk’ held on 4-5 November 2015 which was the Agencies’ first joint training. Based on feedback received from participants, the innovative format with its mix of presenters (academic, industry and regulator) stimulated in-depth discussions

Figure 13: Overview of the training the EBA has provided to EU Competent Authorities from 2011-2015



and provided supervisors with a great opportunity to gain additional knowledge from the academics, address existing challenges with industry experts as well as share experiences on lessons learned.

With regard to online training, following extensive research on the need to create a web-based training for supervisors, the EBA Board of Supervisors (BoS) supported that the EBA should build on its unique position to further promote supervisory convergence by significantly extending its training offered. To this end, the EBA, with the technical expertise of

the EUI, developed, streamed and tested a pilot online tool on 'Assessment of Bank Recovery Plans'. The feedback from participants was positive with most attendees eager for the launch of the online modules.

Finally, the EBA continued its cross-sector programme in 2015 and co-organised two training programmes led by EIOPA: 'Group supervision under SII and colleges of supervisors' held on 7-8 May 2015 in Berlin and 'Supervisory Handbooks in Insurance and Banking' on 14 and 15 December 2015 in Frankfurt am Main.

Figure 14: Overview of the Technical Training events the EBA provided to Competent Authorities in 2015

No	Title	Date	Host	Attendees
1	Seminar on Supervisory Colleges Functioning	10-11 March	EBA, London	36
2	Supervisory assessment of recovery plans — Introduction to the module of the EBA Supervisory Handbook	11-12 March	EBA, London	43
3	Supervisory assessment of recovery plans — Introduction to the module of the EBA Supervisory Handbook (for ECB SSM staff only)	16 March	ECB, Frankfurt	70
4	Data Analysis Systems in Supervision	18-19 March	EBA, London	63
5	EBA-FSI Joint Training on CRD IV-CRR/Basel 3: Latest Developments and Implementation Challenges	21-23 April	EBA, London	55
6	Importance of Liquidity Risk Management for the stability of individual banks and the financial system	27-29 April	Luxembourg	20
7	Cross-sector training: Group supervision under SII and colleges of supervisors	7-8 May	Berlin, Germany	44
8	Common European Supervisory Review and Examination process (SREP) framework — The EBA Guidelines on SREP	11-12 June	EBA, London	59
9	Workshop on Mediation	30 September	EBA, London	18
10	Data needs for risk analysis purposes	1-2 October	EBA, London	69
11	Data Point Model and XBRL	7-8 October	EBA, London	42
12	Supervisory assessment of recovery plans and joint decision on group recovery plans (Hosted by Bank of Slovenia)	19-20 October	Ljubljana, Slovenia	58
13	Seminar on Market Risk (EBA joint with EUI)	4-5 November	EBA, London	68
14	Common European Supervisory Review and Examination process (SREP) framework — The EBA Guidelines on SREP (for ECB SSM staff only)	19-20 November	ECB, Frankfurt	50
15	EBA Guidelines on Security of Internet Payments	26-27 November	EBA, London	70
16	Seminar on Supervisory Colleges Functioning and Capital and Liquidity Joint Decisions (for ECB SSM staff only)	26-27 November	ECB, Frankfurt	50
17	XBRL/DPM for Developers and Technical Support staff	8-9 December	EBA, London	33
18	Cross-sector training: Supervisory Handbooks in Insurance and Banking	14-15 December	Frankfurt am Main	71
19	Common European Supervisory Review and Examination process (SREP) Framework — the EBA Guidelines on SREP	16-17 December	EBA, London	51
Total				970

Figure 15: Overview of the Soft Skills Training the EBA provided to EU Competent Authorities in 2015

Title	Date	Location	Attendees
Structured Analysis and Writing	10 November	EBA, London	11
Structured Analysis and Writing	13 November	EBA, London	10
Structured Analysis and Writing	23 November	EBA, London	7
Structured Analysis and Writing	3 December	EBA, London	9
Structured Analysis and Writing	17 December	EBA, London	11
Total			48

Identifying, analysing and addressing key risks in the EU banking sector

Since its foundation, the EBA has contributed to ensuring the stability, integrity, transparency and orderly functioning of the EU banking sector. In addition, the EBA has carried out work in the macroprudential field, especially, the one connected to shadow banking. It achieved all this through monitoring and assessing market developments as well as through the identification of trends, potential risks and vulnerabilities across the EU banking system. Policy actions have been activated when deemed necessary based on such analyses.

Over time, the EBA has developed a comprehensive risk infrastructure, including supervisory reporting standards, solutions for data collections and tools for data usage. For keeping the quality of outputs of such infrastructure at the highest level, the EBA identified the importance of common definitions, comparable data and overall transparency on bank information as key.

The EBA's main outputs for identifying, analysing and addressing risks in the EU banking sector include: Risk Dashboards, semi-annual risk reports, and transparency and stress test exercises.

Monitoring the evolution of the EU banking sector

Regular risk monitoring

As part of the EBA's assessment of the risks and vulnerabilities of the EU's banking system, the EBA continued to produce its Risk Assessment Report (RAR) twice a year. This public report is the main product for discharging the EBA's responsibility to highlight risks to the Parliament, the Council, the Commission and the ESRB, and it is available on the EBA website. The report provides a forward-looking view of risks based on supervisory and market data as well as on market intelligence. Another main input is the risk assessment questionnaires sent to banks and to market analysts.

The EBA Risk Dashboards are another component of the regular risk assessment conducted quarterly by the EBA and complement the Risk Assessment Report. They summarise the main risks and vulnerabilities in the banking sector on the basis of the evolution of a set of Key Risk Indicators (KRIs). With extended list of reporting entities as well as increased number of KRIs, during 2015, the EBA dedicated substantial work for improving the Risk Dashboard. For ease of interpretation and use, and for clearer understanding of the KRI computation, the EBA also produced the Methodological guide on risk indicators and detailed risk analysis tools. The guide will serve the EBA compilers of risk indicators and internal users. The new Risk Dashboard will be introduced at the beginning of 2016.

Figure 16: New EBA Risk Dashboard

	Bank risk	Risk drivers	Level of risk				Contributing factors/interactions	
			Last quarter (memo)		Current quarter			
			Level	Expected trend	Level	Forward trend		
CAPITAL	PILLAR 1	Credit risk	Asset quality, emerging markets, China, commodity markets	■	→	■	→	NPL ratios remain on elevated levels compared to their long-term history and geographical comparatives, although declining over the year. Further NPL sales and other measures for NPL resolution will be needed to improve asset quality. Credit risk remains heightened for some parts of the EU and for exposures in emerging market and commodities. An improvement in asset quality strongly depends on further economic recovery. However, economic prospects are fragile, owing e.g. to developments in China and other EM economies.
		Market risk	Risk from negative changes in market sentiment and market liquidity	■	↑	■	↑	Changes in market sentiment and market liquidity could lead to further price volatilities in all asset classes. Heightened volatility of asset valuations, interest and exchange rates is expected, also due to potential additional and diverging monetary policy actions around the globe.
		Operational risk	Information & communication technologies, cyber attacks	■	→	■	→	Information and communication technologies remain a key operational risk. This includes cyber attacks, which are increasing in scope and sophistication. A further growing level of outsourcing and cost cutting measures adds to increasing operational risks.
	PILLAR 2	Concentration risk, IRRBB and other	Real estate markets, sovereign exposures, EM country exposures at some banks	■	→	■	→	The increase in real estate based lending and loans to small and mid-sized enterprises (SMEs) further aggravates the vulnerabilities in these loan exposures. Increasing real estate lending aggravates risk of price bubbles in some real estate markets. Also concentration in sovereign exposures as well as in the exposures towards certain countries (e.g. towards Brazil or China) remains high at some single names.
		Reputational and legal	Misconduct, litigation costs	■	↓	■	→	The scope of identified misconduct practices remains wide and misconduct costs high. Recent and further potential drivers for litigation risks are related to FX, investments in sovereign bonds and mis-selling of subordinated debt instruments to retail investors.
		Profitability	Interest margins, impact of deteriorating asset quality, conduct cost	■	→	■	→	Profitability remains weak, driven by further declining net interest margins not compensated by income from fees and commissions. Profitability is also negatively influenced by growing competition from shadow banking institutions and Fintechs. Banks' profitability suffers from low quality of assets in several jurisdictions and from conduct cost at several banks, too.
LIQUIDITY & FUNDING	Access to funding and maturity distribution	Volatile spreads, need to issue BRRD / MREL compliant instruments	■	→	■	↑	Amid volatile funding spreads, no major constraints could be observed for the issuance activity for secured and unsecured instruments. Recently, yields in the AT1 and T2 markets have widened significantly. There has been a bias towards short term maturities of senior unsecured instruments as banks are waiting for further clarifications around MREL before issuing long term instruments. This increases risks from maturity mismatches.	
	Funding structure	Reliance on secured funding	■	→	■	→	There has been less supply of senior unsecured than secured instruments recently, not at least due to lower yields on the latter. Uncertainties about TLAC and MREL are affecting issuance of subordinated debt instruments, and to a lesser extent senior unsecured bonds.	

		Level of risk				Contributing factors/interactions	
		Last quarter (memo)		Current quarter			
Bank risk	Risk drivers	Level	Expected trend	Level	Forward trend		
ENVIRONMENT	Regulatory and legal environment	MREL, structural reforms	■	→	■	→	As before, it is expected that the impact of regulatory reforms, including those on harmonisation of risk weights, will be muted. On MREL further clarification will be needed in many countries before banks will be able to issue complying instruments. Structural reforms remain a key concern in some jurisdictions as they are the basis for NPL transactions.
	Fragmentation	Funding, asset quality, profitability, supervision	■	→	■	→	Fragmentation among jurisdictions of asset quality, profitability and funding structure, and also supervision, remains high.
	Sovereign risk	Debt overhang	■	→	■	→	Risk of debt restructuring and challenges from a large debt overhang in some countries remain high. Significant sovereign exposure leads to elevated vulnerabilities of some banks.

LEVEL

- High
- Medium
- Low

TREND

- ↑ Increasing
- Stable
- ↓ Decreasing

The level of risk summarises, **in a judgmental fashion, the probability of the materialisation of the risk factors and the likely impact on banks.** The assessment takes into consideration the evolution of market and prudential indicators, National Supervisory Authorities' and banks' own assessments as well as analysts' views.



Luis Garcia

STATISTICIAN IN RISK ANALYSIS UNIT



One of the key objectives of the EBA is to improve the functioning of the EU internal market by ensuring its integrity and transparency, strengthening supervisory coordination and enhancing consumer protection. But for all this to be achieved, the EBA needs to have accurate information and appropriate tools, so that risks across the global financial system can be correctly understood and addressed.

In 2015, we were able to provide market participants and the broader community with timely and unique information on the EU's banking sector. We also produced in depth analyses and risk indicators based on our EU-wide harmonised definitions and user-friendly assessment tools.

Throughout 2016, the EBA will keep on playing a key role in addressing the continuously changing landscape of the EU banking industry. Our informative products, ranging from Rrsk Dashboards to the supervisory benchmarking report, the transparency exercise and the disclosure of indicators on systemic importance, testify to this role.



Monitoring asset quality

Based on the definitions of non-performing and forborne exposures (published in the Commission Implementing Regulation (EU) No 2015/227 ⁽⁴²⁾ in 2015) and supervisory reporting data provided by banks, the EBA monitors trends in asset quality across EU countries. The EBA has contributed to discussions about NPLs in the EU's Economic and Financial Committee (EFC) and Financial Services Committee (FSC) with analyses of the link between capital ratios, NPL ratios and banks' willingness to lend as well as the changes in banks' business models and their profitability.

The EBA also makes use of market data, market intelligence and supervisory sources to provide information to its board and other public

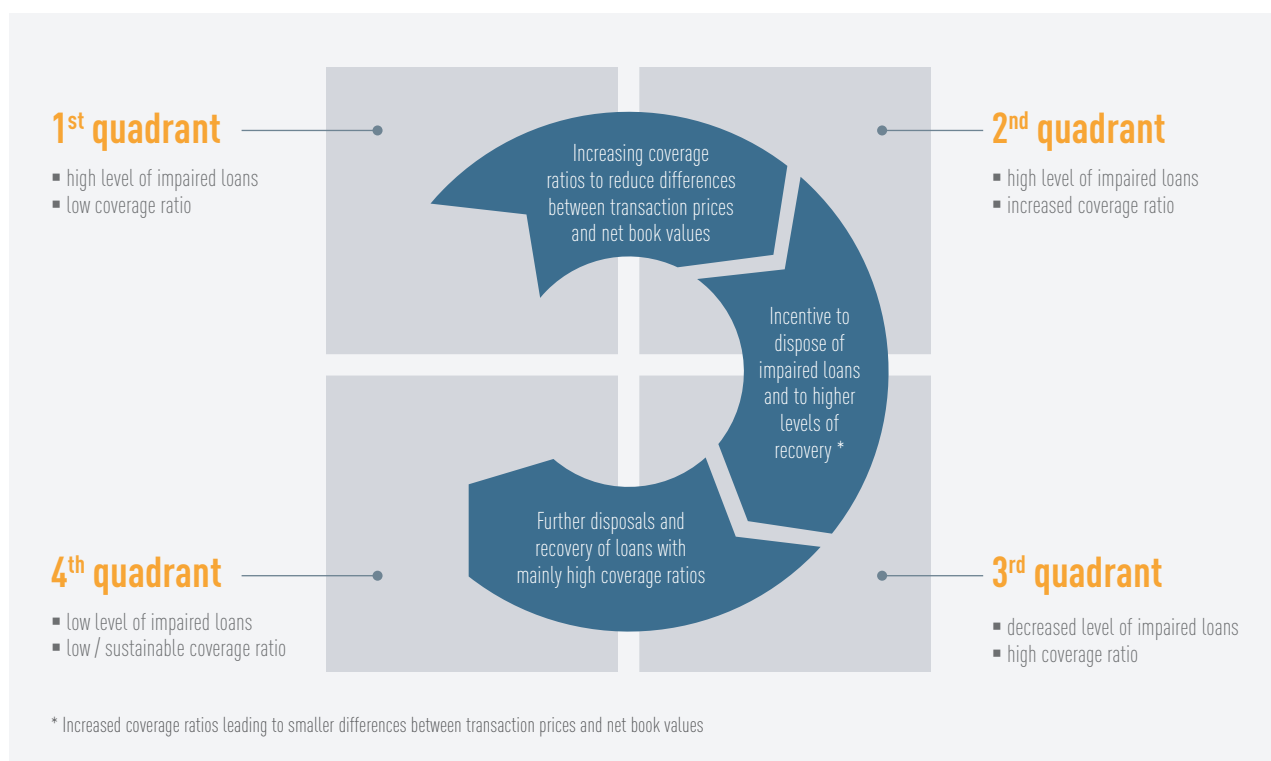
⁽⁴²⁾ The regulation is the version published in the official journal of the EBA definitions of non-performing exposures and forbearance published as final ITS in 2013 and revised in July 2014. (Implementing Regulation (EU) No 680/2014 laying down Implementing Technical Standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council, http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:JOL_2015_048_R_0001).

authorities. For example, it produces weekly newsletters on liquidity and funding and on developments in the bank equity, CDS and EDF markets. In 2015, it also provided internally and to the BoS the EU banks' performance reports, with granular bank-by-bank data, based on quarterly results of large EU banks.

In September 2015, the EBA began issuing a report on banks' asset encumbrance, which will be published annually on the EBA's website. The supervisory reporting on asset encumbrance is pursuant to the CRR mandate and the recommendations by the ESRB on the funding of credit institutions (ESRB/12/2), published in February 2013.

Besides regular reporting, the EBA also contributed to ad hoc studies. At the beginning of 2015, the EBA published a paper on the potential implications of regulatory measures on banks' business models. The paper focused on the possible changes that banks may have to introduce, while adapting their way of doing business to the new regulatory requirements. In addition to this paper, the EBA conducted many other studies, which were for internal use or were only presented at the meetings of its governing bodies.

Figure 17: Virtuous circle of the relationship between NPL and coverage ratios





Remi Boutant

BANK EXPERT IN THE RISK
ANALYSIS UNIT

“

Working on asset quality assessment is both very challenging and intensively rewarding. Starting with the challenges, and there are many, there is first the issue of understanding how we want to assess the level of NPLs in Europe. We have to imagine that not so long ago, truly harmonised definitions on asset quality were not in place. Of course, there were the accounting framework and the CRR which had already achieved a lot in terms of asset quality definitions. However, many areas of possible or actual inconsistencies could be found when looking in details into the definitions available in these two frameworks. That is why a couple of years ago we had to provide a new definition of non-performing exposures and forbearance.

Ensuring consistency in data and in the use of definitions, as well anticipating the impact of the changes in accounting standards on the definition of NPLs, will be the future challenges for the EBA in this area. Working on asset quality issues requires both theoretical and practical knowledge of accounting, credit risk, capital and other supervisory tools and rules, as well as analytical skills to deal with data. This is rather complex but asset quality is an area where there is always something new to do, different issues to be investigated and solved and this is what makes this job stimulating and demanding at the same time.

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Preparing for the 2016 EU-wide stress test

In 2015, the EBA carried out significant preparatory work for the 2016 EU-wide stress test. Key elements of this stress test were already published in July 2015.

In November 2015, the EBA published a reviewed draft stress test methodology note together with the draft stress test templates. The relevant stakeholders were encouraged to comment both on the methodology and the templates. The EBA also organised a physical meeting for discussing the draft methodology note and templates with the relevant stakeholders.

The launch of the stress test was set at the end of February 2016 ^[43].

^[43] More on the 2016 EU-wide stress test can be found in the chapter 'Key areas of focus for 2016'

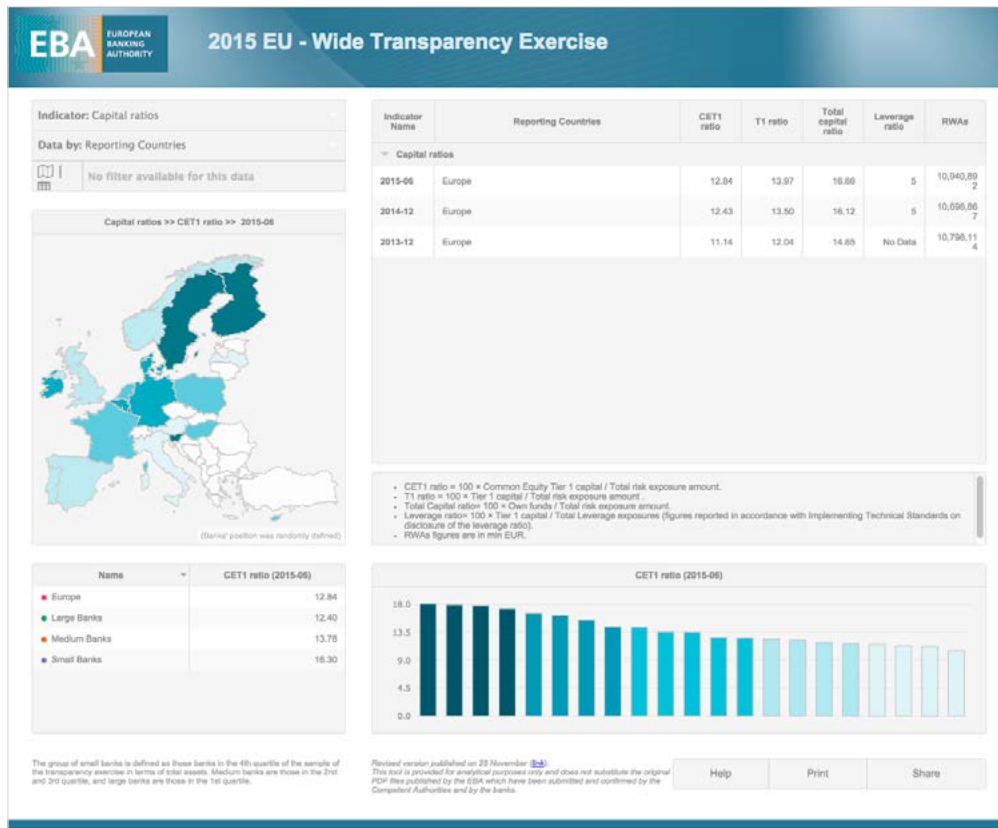
Ensuring transparency

2015 EU-wide Transparency Exercise

To foster more consistency in banks' disclosures, the EBA conducted an EU-wide transparency exercise during the second part of 2015.

The data, covering 105 banks from 21 countries across the EU and Norway, was released on 24 November 2015. The EBA published on its website an extensive collection of bank-by-bank data, including a wide range of interactive tools to facilitate the analysis and visualisation of the results. The publication was complemented with a report summarising the aggregate results of the exercise and providing an overview of the recent developments across EU banks (see Box 4).

Figure 18: Results of the 2015 EU-wide transparency exercise



As in previous exercises, the disclosure included information on capital, RWA, profit and losses, credit risk positions (including securitisation), exposures to sovereigns and market risk exposures. In addition, data on NPE and forborne exposures based on harmonised EU definitions were included for the first time.

The data processing and collection and procedures for the 2015 exercise was a major step forward as the EBA mostly relied on the information reported to it on a regular basis through the supervisory reporting frameworks (FINREP, COREP). For the first time, templates were filled in centrally by the EBA and sent for verification by banks and supervisors. In this process, the EBA processed and disclosed up to 13,600 data points for each bank involved; this amounted to over 1.3 million data points published in aggregate form.



BOX 4 — Results of the 2015 EU-wide transparency exercise

EU banks showed a solid capital position in June 2015. The aggregate CET1 capital ratio for the 105 banks in the sample was 12.8 %, with the Tier 1 (T1) capital ratio at 14.0 % and the total capital ratio reaching 16.7 %. The fully loaded CET1 ratio, i.e. computed without the application of the transitional adjustments, reached 12.0 %.

EU banks' leverage ratios also benefited from capital improvements in recent years. The aggregate reported leverage ratio was 4.9 % as of June 2015.

The banks in the sample reported an aggregate weighted NPE ratio close to 5 % for all on-balance-sheet debt instruments; 5.6 % when considering only loans and advances, and types of instrument that generated the majority share of NPE.

The geographical breakdown of the NPE ratio showed a great dispersion across the different countries in the European Single Market. In general, banks in those countries that had been subject to more financial and/or economic stress reported higher levels of non-performing exposures. In terms of gross domestic product (GDP), the total of NPLs in the reporting banks represented 7.5 % of the total GDP.

In terms of profitability, banks reported an aggregate weighted average return on regulatory capital (RoRC) of 9.1 % as of June 2015, a sharp increase compared to December 2014 (4.65 %), and especially compared to December 2013 (0.44 %). Considering the seasonal effects that can lead to an overestimation of RoRC as of June 2015, profitability remained a source of concern. There are several drivers that explained these low returns: the context of continued low interest rates squeezed banks' interest margins; impairments remained an important toll for banks, especially in some jurisdictions, and represented on average 6 % of banks' regulatory capital in June 2015, absorbing more than 11 % of their total net operating income; limited efficiency gains also contributed to dragging down banks' net profits, with an average cost-to-income ratio above 59 % as of June 2015; and finally, provisions linked, among others, to conduct risk issues were still relevant especially in certain countries, pushing down net profits and representing almost 2 % of banks' RoRC as of mid-2015, and almost 4 % of banks' total net operating income.

Figure 19: Weighted average NPE ratio for loans and advances per banks' country of origin compared to country's GDP (June 2015)

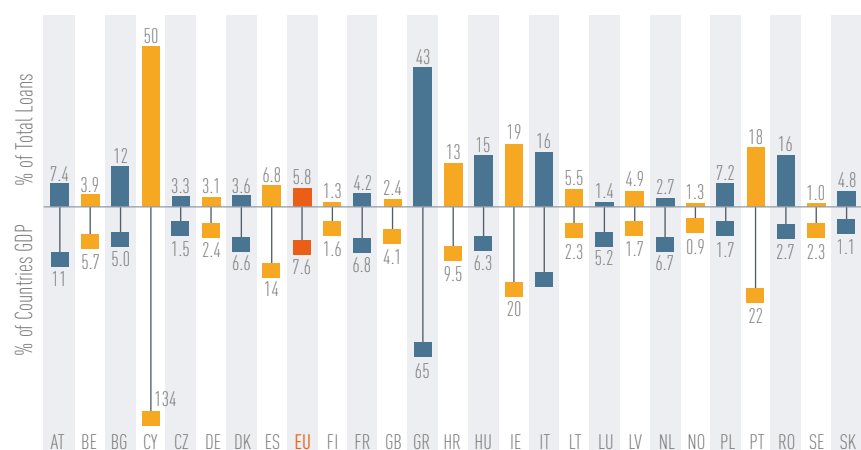
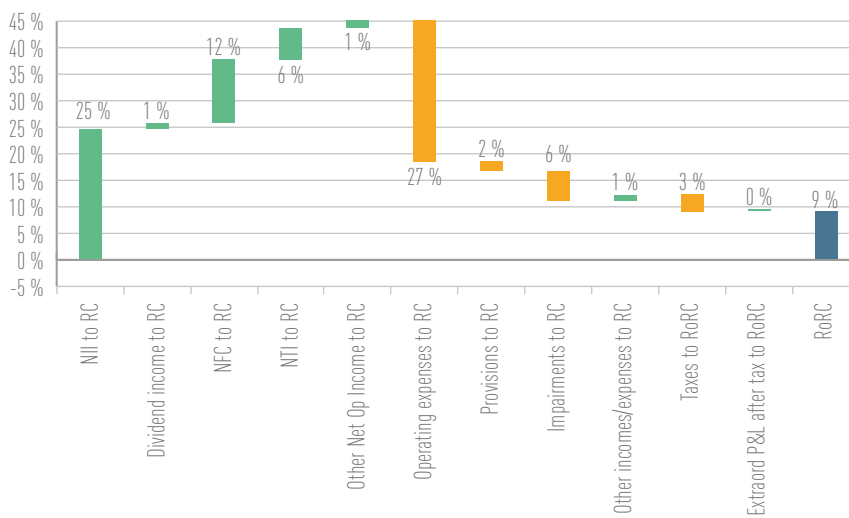


Figure 20: June 2015 – RoRC cascade whole sample

Assessment of Pillar 3 reports

In 2015, the EBA resumed its assessment of Pillar 3 reports (which include information required by Part Eight of the CRR) that had been interrupted in 2014 to focus on the drafting of Guidelines on the use of the concepts of materiality, confidentiality and proprietary nature of information as well as on the frequency of disclosures⁽⁴⁴⁾. The assessment of Pillar 3 reports conducted in 2015 was the first to assess the compliance of credit institutions' disclosures with the new requirements introduced by the CRR that became mandatory as of 1 January 2014.

The assessment covered areas where the CRR introduced changes compared to the previous requirements of Directive 2006/48/EC (CRD); namely, risk management, own funds, capital requirements, indicators of global systemic importance, unencumbered assets, market risk, remuneration policy and use of the IRB approach to credit risk. The assessment revealed that the consistency of disclosures

had indeed increased when standardised disclosure formats specified in RTS or guidelines were used. Nevertheless, challenges of consistency and comparability remain for other disclosure requirements where such standardised formats do not exist, and further improvements are still needed to fully comply with disclosure requirements, especially those newly introduced by the CRR, such as those on risk management and credit risk under the IRB approach.

Using macroprudential tools to prevent and manage financial crises

In July 2015, the EBA published its Report on macroprudential policy measures across the EU. The objective of this Report was to take stock of the range of practices applied by EU Member States in relation to the provisions for macroprudential policies set out in the CRR and CRD IV, focusing on the interaction of macroprudential and microprudential objectives and tools. The Report will contribute to the ongoing discussions regarding the implementation of macroprudential measures and will provide additional input to the regulatory work carried out by the Commission, the EBA and the ESRB regarding macroprudential tools.

⁽⁴⁴⁾ EBA Guidelines on materiality, proprietary and confidentiality and on disclosure frequency, December 2014, <https://www.eba.europa.eu/regulation-and-policy/transparency-and-pillar-3/guidelines-on-materiality-proprietary-and-confidentiality-and-on-disclosure-frequency>

Providing consistent, high-quality and comparable data

High-quality, complete, timely and accurate data

Data quality assurance was a key area of work for the EBA in 2015, following the broadening of data collections in 2014 with the introduction of new reporting standards, which provided fully harmonised information on banks' own funds (COREP) and balance sheet data (FINREP). Significant resources were invested throughout 2015, leading to a number of improvements.

After having promoted the development and application of validation rules and quality checks in 2014, during the first half of 2015, over 1,500 validation rules were implemented in the EBA's European Supervisory Platform (ESP) ⁽⁴⁵⁾. These validation rules blocked the acceptance of data not meeting strict quality requirements. Validation rules and quality checks are run regularly in conjunction with the transmission of data from CAs to the EBA. Higher accuracy and reliability of supervisory data have been achieved due to this enhanced data flow.

The EBA puts emphasis on assuring completeness and timeliness of data, therefore, data is regularly monitored to ensure high quality. Feedback on timeliness, completeness and accuracy of data were distributed to the CAs, both at regular meetings and through bilateral communication. Towards the end of 2015, improvements on completeness, timeliness and data accuracy were noticeable. However, more work can and will be done in 2016.

⁽⁴⁵⁾ The EBA's ESP is the IT platform developed by the EBA to allow each CA to submit microprudential information, on an institution-by-institution basis.

ONGOING WORK

The revised FINREP will follow the application date of IFRS9 in the EU and the first reference date is foreseen to be 31 March 2018. The EBA will finalise the draft ITS, including the data point model, taxonomies and validation rules in 2016, allowing institutions one year for implementation.

ONGOING WORK

In 2016, the Risk Indicators database will be expanded to include more than 300 risk indicators to provide a comprehensive set of risk and financial information for supervisory tasks.

Data sharing

The Memorandum of Understanding (MoU) for sharing of microprudential data of individual banks was updated in 2015, resulting in an extension to cover all CAs reporting ITS data to the EBA. All supervisors joined a shared database on a voluntary basis through which they share and receive the KRIs of banks in the EBA sample. In this dedicated database, supervisors can analyse and compare the KRIs of 192 banks in the EBA's sample. For facilitating the use of the shared data, the EBA further developed its analytical online tool, where supervisors can create customised Risk Dashboards.

Implementation of International Financial Reporting Standards (IFRS) 9 into FINREP

In July 2014, the International Accounting Standards Board (IASB) issued IFRS 9 – Financial Instruments, which supersedes the reporting standard for financial instruments in force in the EU since 2005 (IAS 39). IFRS 9 fundamentally changes the way financial instruments are accounted for and, therefore, a thorough update of the financial reporting framework for IFRS reporters included in the ITS on supervisory reporting (FINREP) is needed. Due to the importance of consulting the institutions earlier in the process of applying changes to FINREP reporting, the EBA launched a public consultation on the proposed changes in December 2015.

Protecting consumers monitoring financial innovation and ensuring secure and efficient payment services across the EU

In 2015, the EBA continued enhancing the protection of consumers, and promoting transparency, simplicity and fairness for consumer financial products and services across the Single Market. The EBA further analysed the retail conduct failure of financial institutions which can cause not only significant consumer detriment, but can also severely undermine market confidence, financial stability and the integrity of the financial system.

In order to address some of the drivers of conduct failure, and to reduce consumer detriment in the process, the EBA developed several sets of regulatory requirements for the products that are within the EBA's scope of action, i.e. mortgages, personal loans, deposits, payment accounts, payment services and electronic money. For issues that cut across the banking sector but are relevant for the insurance and investment sectors, the EBA cooperated closely with the other two European Supervisory Authorities, EIOPA and ESMA.

The EBA also continued to fulfil its mandate to monitor new and existing financial activities and contributed to ensuring secure, easy and efficient retail payments across the EU.

Protecting consumers

The EBA's work on consumer protection is aimed at reducing consumer detriment when purchasing retail banking products and services. In 2015, the EBA developed requirements at all three stages of the interaction between consumers and financial institutions:

- before the consumer decides to purchase a product (i.e. pre-sale);
- when the consumer makes the decision to purchase the product (i.e. at point of sale);
- after the consumer has purchased the product (i.e. post-sale).

Pre-sale requirements

In July 2015, the EBA published the Guidelines on product oversight and governance arrangements for manufacturers and distributors of retail banking products. These Guidelines establish a framework for robust and responsible product design and distribution by manufacturers and distributors.



The requirements for manufacturers cover their internal control functions, identification of the target market, product testing, product monitoring, remedial actions, the selection of distribution channels and information to distributors. The requirements for distributors, in turn, cover the distributor's internal arrangements, identification and knowledge of the target market, and information requirements.

Developing products with the consumer's interest, objectives and characteristics in mind from the outset is a cornerstone of ensuring good consumer outcomes, and should help to re-establish and maintain confidence in the banking sector. In addition, having good product oversight and governance arrangements in place might help reduce the need for CAs to intervene in the markets ex post. The Guidelines will apply from 3 January 2017.

Furthermore, in support of the transposition of the Mortgage Credit Directive (MCD), the EBA published in August 2015 the Guidelines on passport notifications for mortgage credit intermediaries. The Guidelines formalise the notification process between the national authorities in the home and host Member States and ensure that information on the provision of services and the establishment of branches, as well as on the transmission of notifications, the registrations, and the notifications of changes is shared consistently across the EU. They also include template notification forms for exercising the freedom to provide services and freedom of establishment, as foreseen in Article 32 of the MCD. The Guidelines will apply from 21 March 2016.

Point-of-sale requirements

Finally, in December 2015, the EBA published a Consultation Paper on draft guidelines on remuneration policies and practices. With these draft Guidelines, the EBA aims to address poor remuneration policies and practices which it

has identified as a key driver of miss-selling of retail banking products and services. The draft Guidelines provide a framework for financial institutions to implement remuneration policies and practices that will link incentives with the fair treatment of consumers, and reduce the risk of mis-selling and resultant conduct costs for firms.

The Guidelines emphasise the responsibility of the management body, who will be in charge of designing and monitoring remuneration policies and practices, which should take into account the rights and interests of consumers but also promote the prevention of conflicts of interests, the use of quantitative and qualitative criteria for determining the level of variable remuneration, and retention of documents for auditing purposes.

Furthermore, and as part of the EBA's effort to support the transposition of the MCD, the EBA published in June 2015 the Guidelines on creditworthiness assessment. The Guidelines provide greater detail on how creditors should give effect to the relevant MCD provisions in Articles 18 and 20(1), and thus contribute to the EBA's objective of achieving a convergence of supervisory practices for the directives that fall into the EBA's scope of action. They establish requirements for verifying consumers' income, documenting and retaining information, identifying and preventing misrepresented information, assessing consumers' ability to meet their obligations under the credit agreement, considering allowances for consumers' committed and other non-discretionary expenditures, as well as allowances for potential future negative scenarios. The Guidelines will apply from 21 March 2016.

Post-sale requirements

Together with the Guidelines on creditworthiness assessment, the EBA published in June 2015 the Guidelines on arrears and foreclosure, in support of Article 28 of the MCD. These Guidelines establish requirements in terms of policies and procedures for the early detection and handling of payment difficulties including staff training, engagement with consumers, provision of information and assistance to consumers, resolution process and documentation of dealings with consumers and retention of records.

ONGOING WORK

The EBA aims to produce a feedback statement and finalise the Guidelines on remuneration for sales staff in late summer 2016.

Monitoring financial innovation

The EBA has an interest in contributing to the success of innovative products and services, either by establishing, where possible, regulatory frameworks and approaches that allow innovative market segments to grow, and/or proposing to the EU Commission and EU co-legislators the areas in which such frameworks should be developed and how these frameworks should look like.

To that end, the EBA published in February 2015 an Opinion on lending-based crowdfunding addressed to the Commission, the Parliament and the Council. The EBA focused its work on the assessment of risks arising for market participants as well as the drivers of these risks, and the extent to which these could be addressed in existing EU directives and regulations. The Opinion identified the Payment Services Directive (PSD) as the EU legislative text that would be most relevant to lending-based crowdfunding. However, even if the PSD was to be applied to crowdfunding, several risks are unlikely to be addressed by existing EU law and therefore, the Opinion lists a set of options on how to mitigate them.

Ensuring secure and efficient payment services

In 2015, the EBA intensified its efforts with regard to regulatory and supervisory convergence in the area of payments. The EBA aims to ensure secure, easy and efficient payments across the EU. As a first step, the EBA issued final Guidelines on the Security of Internet Payments, which have been applicable since 1 August 2015.

The EBA has also started working on the implementation of the revised Payment Services Directive (PSD2), which entered into force in January 2016 and has conferred on the EBA the development of six technical standards and five sets of guidelines. To that end the EBA published, in December 2015, a Consultation Paper on draft regulatory technical standards on the framework for cooperation and exchange of information between CAs for passporting under Article 28(5) of the PSD2. The aim of these RTSs is to set out a harmonised framework which will provide clarity to payment institutions about regulatory requirements and, in so doing, will foster the cross-border provision of payment services in the EU internal market.

ONGOING WORK

The EBA expects to produce a feedback statement and finalise the RTS on passporting notifications under the revised Payment Services Directive in summer 2016.

Also under the PSD2, the EBA published a Discussion Paper on strong customer authentication and secure communication. The discussion paper was developed jointly with the ECB and it preceded a Consultation Paper on the draft RTS on strong customer authentication and secure communication, which is currently foreseen for the second quarter of 2016. These RTS will be crucial in achieving the objective of the PSD2 of enhancing consumer protection, promoting innovation and improving the security of electronic payment services across the European Union.

The RTS will specify the requirements of the strong customer authentication, exemptions from the application of these requirements, requirements to protect the user's security credentials, requirements for common and secure open standards of communication and security measures between the various types of providers in the payments sector. This particular technical standard is developed by the EBA in close cooperation with the ECB, through the Forum for the Security of Retail Payments (SecuRe Pay) which is jointly chaired by the ECB and the EBA.

Finally, in December 2015, the EBA also launched a Consultation Paper on draft RTS on the separation of payment card schemes and processing entities under Article 7(6) of the Interchange Fee Regulation (IFR). The draft RTS require payment card schemes and processing entities to have accounting processes in place to produce annual audited information related to separated balance sheets, and profit and loss accounts, to separate workspaces, and to ensure the independence of senior management, management bodies and staff. They also set out requirements related to the use of shared services and a shared information management system, the treatment of sensitive information, a code of conduct and the separation of annual operating plans.

Other activities

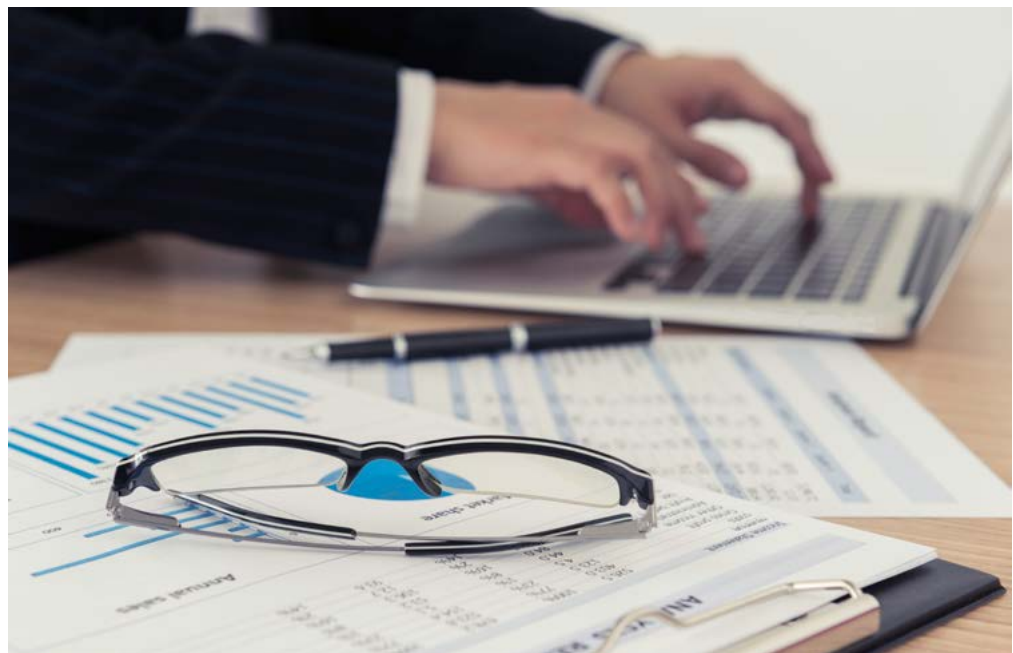
In June 2015, the EBA published its annual Consumer Trends Report. The report highlighted eight relevant trends that may be the basis for potential future work by the EBA in the area of consumer protection. These trends included household indebtedness, with a specific focus on mortgages; transparency and comparability of banking fees; innovation in payments; structured deposits; commercial selling practices and remuneration, in particular, as a key causal driver of mis-selling; and alternative financial services providers. The report highlighted two trends for the first time: the use of banking consumer data, which is increasingly used by financial and other institutions to generate additional revenue; and negative interest rates and its effects on consumer contracts, both on deposits and loans. The report also listed the measures that the EBA will take in 2015/16 to address these trends.

The EBA continued its work in the area of payment accounts. In March 2015, the EBA published the Guidelines on national provisional lists of the most representative services linked to a payment account and subject to a fee under the Payment Accounts Directive (PAD). The Guidelines aimed at will in turn form the basis for guiding CAs in the development of provisional lists of the most representative payment accounts services that are subject to a fee. The PAD required CAs to submit their lists by 18 September 2015. These lists will in turn assist the EBA in developing standardised terminology that will be applicable across the EU Single Market and will be used as the basis for two new information EBA documents: the Fee Information Document and the Statement of Fees, which are expected to be ready for public consultation later in 2016. The Guidelines applied from May 2015.

Finally, in November 2015, the EBA published a Consultation Paper on the EBA benchmark rate under Annex II of the MCD, in which the EBA set out its proposal for how the EBA rate should be calculated by creditors when calculating the illustrative example of the annual percentage rate of charge (APRC) and the illustration of a maximum instalment amount to be included in the European Standardised Information Sheet (ESIS).

ONGOING WORK

The EBA expects to produce a feedback statement and finalise its proposal in spring 2016, to align with the transposition date of the MCD, set for 21 March 2016.



International engagement

Participating in the Basel committee process of regulation and supervisory repair

The EBA actively participates in meetings of the Basel Committee on Banking Supervision (BCBS), a number of its expert sub-committees (the Policy Development Group and the Supervision and Implementation Group), and a range of specialist Working Groups and Task Forces, including on capital, liquidity, the leverage ratio, large exposures, the prudential treatment of assets, the scope of regulation consolidation (the EBA is the co-chair of this Task Force), risk measurement, ratings and securitisation, banking book, trading group, margining rules, anti-money laundering (AML) and accounting.

As in 2015, while working on the regulatory **review of the IRB Approach** at EU level, the EBA will continue to participate in the BCBS discussions where the EBA will advocate the solutions that will lead to enhanced quality of the internal rating systems and greater comparability of capital requirements, at the same time ensuring appropriate level of risk sensitivity. In view of the need to maintain consistency between global and EU standards, it is possible that the global developments may influence the scope and timelines of the EBA's work in this area.

As regards the **leverage ratio**, the EBA contributes, where needed, to the specification of the BCBS definition of the ratio. This includes answering frequently asked questions (FAQs) and contributing to the development of new rule text. The monitoring of the leverage ratio is an essential part of this work, and is based on the BCBS QIS exercise which, in turn, is based on the EU voluntary QIS exercise. Through its participation in this work, the EBA is well-placed to contribute to international developments in this area (in particular in the context of its work on the leverage ratio report) and to incorporate developments in the BCBS standards into the EU framework.

The EBA has contributed to **the review of the whole Market Risk Framework** (known as the Fundamental Review of the Trading Book) recently published by the BCBS, as well as to

ONGOING WORK

This EBA will continue its work on AML/CFT standards in 2016.

the revisions to the CVA framework, which is currently under way. In this regard, the EBA is encouraging the adoption at international level of several policy recommendations which were included in the CVA report that the EBA published in February 2015. The objective is to recalibrate the framework to address the excessive capital requirements posed by the current approach, while at the same time ensuring an appropriate level of risk sensitivity and hedging recognition.

As for other areas of its work, the EBA is mindful of the need to ensure consistency between international **anti-money laundering and counter-terrorist financing (AML/CFT) standards** and its own work on guidelines and draft technical standards under the new Union legal framework. Accordingly, the EBA is contributing to the development of international standards, including by participating in specialist Basel Committee working groups and by supporting the Commission's delegation to the Financial Action Task Force. In 2015, in line with its own priorities and work programme, the EBA focused in particular on guidance on the risk-based approach to AML/CFT, the cooperation of home and host AML/CFT supervisors and criteria for effective AML/CFT supervision.

The EBA was involved in the work of the Basel Committee regarding a number of regulatory initiatives. The EBA took part in the development of the revised Pillar 3 Framework that was issued in January 2015 and contains mandatory templates for the disclosure of quantitative information⁽⁴⁶⁾. The EBA is also involved in the work of the Task Force on the Pruden-

⁽⁴⁶⁾ Standards on Revised Pillar 3 disclosure requirements, Basel Committee on Banking Supervision, <http://www.bis.org/bcbs/publ/d309.pdf>

tial Treatment of Assets, which assesses the differences and commonalities in the supervisory and banks' classifications of assets for credit risk purposes. As a result of this assessment, definitions of NPE and forbearance are planned to be issued in March 2016. These definitions are similar to those that the EBA released in October 2013.

In addition, the EBA participated in the Basel Committee's Supervision implementation group (SIG) benchmarking exercises in 2015 (e.g. several interviews with banks as well as methodological discussions) and in the SIG monitoring of developments in bank modelling practices for banking and trading book as the Basel Committee revises the capital framework. This involvement encompasses the development of sound practices for supervisory approaches to model validation in the banking book. Furthermore, the EBA was included in the development of case studies and sound practices to support supervisors with parts of the current and future IRB approaches that are challenging to implement.

The EBA has also been actively involved in the Working Group on Margin Requirements (WGMR) that was jointly set up by the BCBS and the IOSCO. The WGMR, after developing the framework on margin requirements for non-centrally cleared OTC derivatives has been mandated to monitor whether inconsistencies in the translation of that framework into national regulations may impede its im-

plementation or allow regulatory arbitrage. The EBA also supported the WGMR when assessing the industry readiness in view of the first implementation date of that framework this year. To this end, a wide range of industry stakeholders were consulted in order to better understand current practices and the specificities of certain market segments.

Finally, the EBA supported the Basel Committee in respect to the identification of G-SIIs. For the second consecutive year, the EBA published information on G-SIIs, which will be repeated on an annual basis in the future. This data disclosure includes a range of indicators used to assess the systemic importance of the largest banks in the EU, to address too-big-to-fail concerns. Following the internationally agreed standards by the Basel Committee, this effort allows for Global Systemically Important Banks (G-SIBs) to be identified, eventually leading to higher capital requirements.

Enhancing the resilience and crisis management provisions for financial institutions and financial market infrastructures at the global level

As in previous years, the EBA has been actively participating in key Financial Stability Board (FSB) activities under the Resolution Steering Group (which leads the FSB's work on resolution and resolution planning). This enables it to ensure that global and European develop-



ments in resolution policy are well-coordinated (for example on the development of standards for loss-absorbing capacity). The EBA has also contributed to FSB consultations on the funding of banks in resolution and ensuring operational continuity in resolution. The EBA will continue to contribute to the FSB's 2016 work programme on resolution issues.

More recently, the EBA has also been involved in the Cross-Border Crisis Management Group (CBCM) workstream on continuity of access to financial market infrastructures and the new Financial Market Infrastructures Cross-Border Crisis Management Group (fmiCBCM) ^[47]. The EBA aims to improve the understanding of the links between financial market infrastructures and financial institutions and the implications of resolution actions in this sector by sharing its crisis management experience in the banking industry.

Working with the International Monetary Fund (IMF)

EBA and IMF staff have a regular exchange of views on matters relating to banking regulation and supervision and financial stability, in particular, in connection with the IMF's global financial stability monitoring work.

The EBA worked on a guidance note to assist CAs in compiling IMF Financial Soundness Indicators (FSIs) for deposit takers using statistical input derived from the EBA ITS on supervisory reporting. FSIs are aggregated statistical measures for monitoring the current financial health and soundness of a country's financial sector and its corporate and household counterparts.

This mapping may allow EU/EEA compilers to compute FSIs for 'deposit-takers' (banks), based on ITS statistical inputs and thus, bring more efficiency gains in terms of harmonised concepts and definitions, coverage, periodicity and timeliness in the EU-wide FSIs. It may also reduce reporting burden for their firms, since in most of the cases, the relevant ITS statistical inputs are already available in-house and have undergone rigorous quality checks.

Engaging with third-country authorities

The EBA continues to invest in relations with non-European countries (third countries) as these relationships support the cooperation between EU CAs with supervisory authorities in these countries, which in turn facilitates information exchange and cooperation in the supervision of many of Europe's largest banks with operations there.

EBA Opinion on cooperation with third countries

The EBA was mandated under Article 161(7) of the CRD to review and submit a report to the Commission on the application of the CRD and the CRR on the cooperation of the Union and Member States with third countries, identifying any areas which require further development with regard to cooperation and information sharing on a cross-border basis. The aim of such an analysis was to identify areas in the legislation which are not conducive to such cooperation and to propose amendments on how to foster better cooperation between the EU and third countries. The review was based both on observations from EBA participation in EEA supervisory colleges and feedback gathered from Member States.

The EBA concluded that there are no significant concerns although legislative amendments in the field of equivalence assessments were identified as areas which could facilitate better cooperation. As a result, the EBA Opinion puts forward that a clear legal mandate on equivalence assessments in the CRD and CRR will clarify the EBA's role and will enable coordinated, consistent and continued equivalence assessments which will provide consistency in the treatment of third countries across Member States. It also seeks to ensure that the EBA has sufficient resources on an ongoing basis to fulfil these tasks. The Opinion was submitted to the Commission and published on the EBA website ^[48].

^[47] The fmiCBCM coordinates the development and implementation of resolution procedures for FMIs and in particular Central Counterparties (CCPS).

^[48] EBA Opinion on cooperation with third countries, <https://www.eba.europa.eu/-/eba-identifies-areas-of-improvement-in-the-cooperation-between-eu-and-third-countries>

ONGOING WORK

The work on assessing the equivalence of confidentiality regimes will continue throughout 2016 and beyond as annual rounds, with the evaluation of further authorities scheduled.

EBA Recommendation on the equivalence of confidentiality regimes

Third-country supervisory authorities may participate in EEA supervisory colleges, according to Article 116(6) of the CRD, if the confidentiality regime of these countries is equivalent to the requirements laid down in the CRD. For many of the EEA's largest cross-border banks their operations in third countries are very significant. Therefore, having those supervisory authorities in the colleges of supervisors is of utmost importance.

In order to facilitate consistent participation of third-country supervisory authorities in supervisory colleges, the EBA, on its own initiative, issued a Recommendation on the equivalence of the confidentiality regimes of 29 non-EU supervisory authorities from 13 countries ^[49]. The recommendation is a step towards consistent EU supervisory practices, as all National Competent Authorities (NCAs) agreed to comply with the findings which will harmonise third country participation in EU supervisory colleges.

^[49] EBA Recommendation on the equivalence of confidentiality regimes, <https://www.eba.europa.eu/regulation-and-policy/colleges-of-supervisors/recommendation-on-the-equivalence-of-confidentiality-regimes>

EBA Opinion on the regulatory equivalence of third countries

Additionally, in 2015, the EBA responded to the Commission's request for technical advice on the equivalence of the legal and supervisory regimes in specific third countries. The jurisdictions assessed were identified and prioritised in close cooperation with the Commission. In 2015, the results of the EBA assessment of six third countries were submitted to the Commission in the form of a report and an EBA Opinion on equivalence. The EBA Opinion is intended to feed into a revised version of the Commission Implementing Decision (2014/908/EU) which will have a significant prudential impact on credit institutions' capital requirements and large exposures as it declares which countries are regarded as equivalent and allows banks to use preferential risk weights for certain exposures to entities in these countries, as those for exposures to debtors within the EEA as specified in the CRR. The Implementing Decision, replacing the former national assessments of equivalence, 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. This is a necessary step in the context of a single market in banking.

Working with the Vienna Initiative to sign the Memorandum of Cooperation with South Eastern European countries

In 2015, an Memorandum of Cooperation (MoC) was signed between the EBA and the supervisory authorities of South East European (SEE) countries — namely the Banking Agency of the Federation of Bosnia and Herzegovina, the Banking Agency of the Republic of Srpska, the National Bank of the former Yugoslav Republic of Macedonia, the Central Bank of Montenegro, the National Bank of Serbia and the Bank of Albania — to establish a framework for cooperation and information exchange. The agreement has been reached under the auspices of the Vienna Initiative — the public-private network established to safeguard the financial stability of emerging Europe — and reflects the systemic role of EU banking groups in the financial systems of these SEE countries.

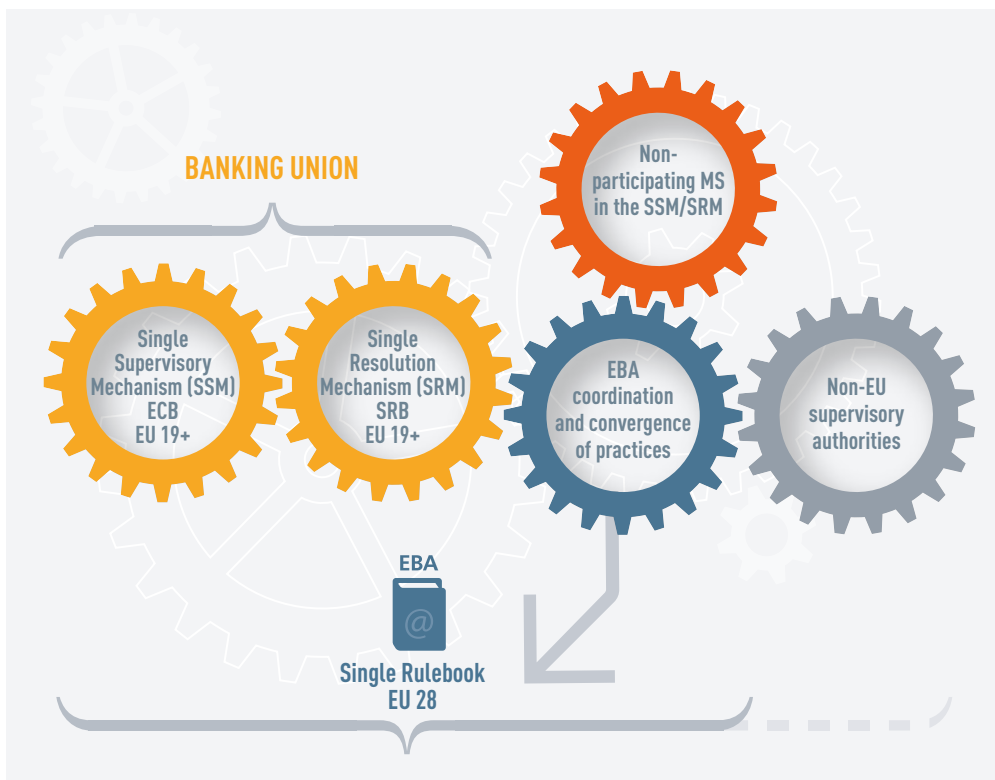
The signing of the MoC is the result of the effort and commitment of the EBA and representatives of the Vienna Initiative to enhance cross-border cooperation and supervision. The EBA intends to carry out further work with SEE authorities to help align their supervision and regulation with EU standards, while EEA CAs and the EBA expect to benefit from their contribution in the supervision of EU cross-border groups.

Within this framework, the EBA will update SEE authorities on the relevant developments of the Single Rulebook and on the progress in convergence of supervisory practices, thus facilitating their participation in the colleges of supervisors. The signatory authorities have committed themselves to providing the EBA with regular and ad hoc information on developments in their banking systems, which will be used for risk analysis purposes.

Establishing Framework Cooperation Arrangements

The BRRD has given the EBA powers to establish uniform standards for information sharing and coordination on cross-border crisis management between, on the one hand, EU supervisory and Resolution Authorities and, on the other hand, relevant non-EU responsible authorities. In this context, in 2015 the EBA undertook the initiative to propose a Framework Cooperation Arrangement with key authorities in jurisdictions with major, global financial centres. The Framework Cooperation Arrangement endorses relevant international standards and aims to facilitate the conclusion and consistency of future cooperation arrangements between any of the non-EU counterparties and any EU supervisory or resolution authorities.

Figure 21: EBA in the context of the Banking Union



Working on cross-sectoral issues

Contributing to the Single Rulebook through cross-sectoral work under the Joint Committee

In 2015, the Joint Committee continued its work as a forum for cross-sector coordination and exchange of information between the ESAs. Under the chairmanship of ESMA, the Joint Committee focused in particular on the consumer protection and cross-sectoral risk assessment. In addition, the ESAs have also made significant progress in those areas of the Single Rulebook which require cooperation across the banking, insurance and markets sectors, such as credit rating mappings, securitisation and anti-money laundering.

ESAs promote consumer protection

In the area of consumer protection, the work focused on the regulatory mandate on the development of draft RTS pursuant to the Regulation (EU) No 1286/2014 on Key Information Documents (KID) for Packaged Retail Investment and Insurance-based products (PRIIPs). The Joint Committee published in June 2015 a technical Discussion Paper and in November a comprehensive Consultation Paper. The latter addressed the presentation and content of the KID, including methodologies for the calculation and presentation of risks, rewards and costs within the document, its review, revision and republication of the KIDs, as well as the conditions for fulfilling the requirement to provide the KID in good time. The KID will help retail investors in the EU to better understand and compare PRIIPs across the EU.

The ESAs continued their policy work on cross-selling practices. In view of legal issues, the ESAs decided to abstain from issuing joint guidelines on Cross-Selling practices and to inform the Commission about the issues encountered. Nonetheless, the joint work carried out paved the way for the adoption of ESMA guidelines as required by the revised Markets in Financial Instruments Directive (MiFID II).

In 2015, the ESAs started work on the automation of financial advice which focuses on the characteristics of automated financial advice tools, potential benefits and risks associated

with increasing automation of financial advice for consumers and financial institutions. In December 2015, a Discussion Paper was launched for public consultation to assess possible actions to harness the potential benefits of this innovation and mitigate its risks.

In addition, the ESAs held their third Joint Consumer Protection Day on 3 June 2015 hosted by EIOPA in Frankfurt with Commissioner Jonathan Hill as the keynote speaker. The event attracted over 300 consumer representatives, academics, legal and financial consultants, national supervisors, experts from EU institutions and the financial services industry (banking, securities, insurance and pensions).

Packaged Retail and Insurance-based Investment Products (PRIIPs)

As a part of the Joint Committee work, in June 2015 the ESAs published a technical discussion paper on risk, performance scenarios and cost disclosures for PRIIPs KIDs. This was followed in November by a joint consultation paper on the three RTSs under the PRIIPs Regulation. The aim of these papers was to gather stakeholder views on proposed rules on the content and presentation of the KIDs, which will provide EU retail investors with consumer-friendly information and will help them to understand and compare the PRIIPs offered by banking, insurance or securities firms across the EU.

Addressing cross-selling practices across the banking, insurance and investment sectors

Following the joint consultation on the on guidelines for cross-selling practices which was launched in December 2014, several concerns were raised as to the ESAs' ability to address cross-selling in a way that is compatible with related provisions in other Level 1 legislation, such as the MCD and PAD. The Joint Committee therefore decided not to issue final joint Guidelines, and for ESMA instead to issue ESMA-only Guidelines covering only the investment sector. The three ESAs also sent a joint letter to the EU Commission raising awareness of the issue in Level 1.

Monitoring innovation: automation in financial advice

As part of the ESAs' mandate to monitor new and existing financial activities, the ESAs have noticed the continued digitalisation of financial services across the banking, insurance and securities sectors. A particular area of interest is the automation of financial advice, i.e. the various ways in which consumers use automated tools (typically via websites) to receive financial advice or recommendations without (or with very limited) human intervention. In order to gather input from various stakeholders on this topic, the ESAs published a Discussion Paper in December 2015, with a view to assess what, if any, action is required to harness the potential benefits of this innovation while at the same mitigating its risks. The ESAs have received more than 60 responses to the Discussion Paper which will be assessed in early 2016.

Analysing and assessing cross-sectoral risks under the ESA's Joint Committee

For the purpose of monitoring risks and vulnerabilities in the whole EU financial system, the EBA contributes to the work produced by the Joint Committee of the ESAs (EBA, ESMA and EIOPA). In 2015, the ESA's Joint Committee produced two semi-annual cross-sectoral reports on risks and vulnerabilities of the EU financial system. They provided an overview of the main cross-sectoral risks identified in the EU financial system and recommended concrete policy actions to mitigate them. The main risks identified included weak economic growth in the EU, low interest rates environment, high volatility of financial markets, decreasing structural market liquidity and low profitability of financial institutions. The reports were submitted at the April and August 2015 meetings of the Economic and Financial Committee of the Council and also to the ESRB, and subsequently published on the ESAs' websites.

Providing guidance on anti-money laundering and the countering the financing of terrorism

The ESAs continued their work on anti-money laundering and counter-terrorist financing and the Joint Committee focused on the ESAs' regulatory mandates under both the new fourth Anti-Money Laundering Directive and the Anti-Money Laundering Regulation.



In the second half of 2015, the Joint Committee consulted on guidelines on risk-based anti-money laundering and counter-terrorist financing supervision, on guidelines 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. Both guidelines provide CAs and credit and financial institutions with a common understanding of the risk-based approach to anti-money laundering and counter-terrorist financing and how it should be managed. They are therefore central to the EU's anti-money laundering and counter-terrorist financing regime.

ESAs' report on the securitisation regulatory framework

On the topic of securitisation, the Joint Committee completed the work started in 2014 and published a comprehensive report on the disclosure requirements and obligations relating to due diligence, supervisory reporting and retention rules in existing EU law on structured finance instruments. The report, published in May 2015, identified inconsistencies in the existing Level 1 and Level 2 regulation, and proposed recommendations to address these. The report also served as the ESAs' response to the public consultation launched by the Commission in the context of the CMU project.

Mapping of ECAIs' credit assessments

The Joint Committee developed and finalised the joint draft ITS on the mapping of External Credit Assessment Institutions (ECAIs)' credit assessments under the CRR and the Solvency II Directive. The draft ITS specify for all ECAIs the correspondence ('mapping') between the risk weights and credit assessments (via credit quality steps), as well as the factors and benchmarks that should be taken into account to determine this correspondence. The draft ITS are accompanied by 26 ECAIs' mapping reports, containing an explanation of how the ITS principles have been employed in each ECAI case to produce the mapping. The draft ITSs were submitted to the Commission in November 2015.

ESAs work on supervision of financial conglomerates

The Joint Committee published its updated annual list of identified Financial Conglomerates in December 2015. The list shows 78 financial conglomerates with the head of group in an EU/EEA country, one with the head of group in Australia, one with the head of the group in Switzerland and two with the head of group in the United States.

ESAs work on acquisitions and increases of holdings in the financial sector

The Joint Committee has continued its review of the joint guidelines on the prudential assessment of acquisitions and increases of qualifying holdings in the financial sector. The Commission requested the ESAs to review the Guidelines from 2008 in order to ensure a common, uniform and consistent application of the Directive on acquisitions and increase of holdings in the financial sector (2007/44/EC). A public consultation paper was published in July 2015 for a three-month period.

ESAs assess the initial margin models under the European Market Infrastructure Regulation (EMIR)

In early 2015, the ESAs started to assess the compliance of the different initial margin models to the requirements of the draft joint RTS on EMIR and the BCBS-IOSCO framework, and to give some clarification on the supervisory expectations on the models provided to the developers, to improve the models. In June 2015, the ESAs launched a second consultation on draft RTS outlining the framework of the EMIR, with regard to those OTC derivative transactions that will not be subject to central clearing.

Board of Appeal of the ESAs

The ESAs continued to provide operational and secretarial support to the Board of Appeal. The Board of Appeal held its annual meeting in September at the ESMA premises in Paris, decided on one appeal case in 2015 and progressed onto another one lodged in autumn 2015.

Working with the ESRB on macroprudential aspects

The EBA has been closely cooperating with the ESRB and has been closely involved in its work. EBA staff are involved in a number of the ESRB work streams, such as those on stress testing, macroprudential measures and policy, on structural market liquidity and on countercyclical capital buffers, etc. The most notable topics on which the EBA and the ESRB closely cooperated in 2015 included participation in the expert group on real estate and the joint task force on low interest rates, and contribution to the final report on sectoral risks. The EBA and the ESRB also closely cooperated in planning for the 2016 EU-wide stress testing exercise.

Key areas of focus for 2016

Promoting a common approach to the calibration of the leverage ratio

The EBA is mandated under the CRR to report to the Commission on a number of aspects related to the leverage ratio (see Article 511 of the CRR). While officially due for 31 October 2016, the deadline for transmitting this report has been advanced to July 2016. Accordingly, in early 2016, the EBA will, in close cooperation with CAs, finalise its work in relation to the report.

One core question for the EBA is that of Pillar 1 migration of the leverage ratio and the minimum level(s) that should be taken into account, in particular, with regard to business models and risk profiles. A considerable number of other aspects, such as the interaction with the RWA-based ratios and liquidity requirements as well as the impact on various segments of financial markets, are also required to be analysed.

On this basis, by 31 December 2016, the Commission will report to the European Parliament and the Council on the impact and effectiveness of the leverage ratio, together with a potential legislative proposal on the introduction of one or more levels of the leverage ratio (in accordance with Articles 511(1) and (2) of the CRR).

Given the broad variety of aspects to cover, the EBA will combine a high degree of data analysis with other more qualitative approaches such as literature review, stylised balance sheet examples, case studies and expert review.

Business models and risk of excessive leverage

One key aspect to cover in the report is that of business models and their riskiness to inform the appropriate levels of the leverage ratio that safeguard the resilience of the respective business models.

This requires a concrete understanding of the risk that the leverage ratio is supposed to address while taking into consideration that the

leverage ratio itself is not meant to be risk sensitive. In this context it is relevant to note that Article 511(3)(i) of the CRR indicates that the risk profile of business models and the 'risk of excessive leverage' need to be examined.

Against this backdrop the EBA, in close cooperation with CAs, is developing a quantitative methodology to assess this risk on the basis of a benchmarking approach. The data will come from the EU voluntary QIS exercise and the common reporting (COREP) framework. The quantitative analysis will be complemented by a qualitative assessment, which will be informed by extensive interaction with the CAs in the EU as well as a few dedicated interactions with industry.

With regard to the business models, their categories have been defined in close cooperation with CAs, and institutions that have provided data have been allocated to these categories. Further detailed knowledge of institutions' activities will be gathered where deemed necessary.

Potential impact of the leverage ratio

In addition to the mandate on business models, the EBA is also mandated to assess several impact related aspects. In particular, pursuant to Article 511(4)(b) of the CRR, the interaction of the leverage ratio with the risk-based own funds requirements as well as the liquidity requirements needs to be assessed. Specifically, in case of institutions that would be bound by a certain minimum level of the leverage ratio, while already meeting the requirements for the risk-based ratio, it could be considered that next to building up capital there may be an incentive to shed assets of particularly low risk weight. For the purposes of this assessment, the EBA is developing an approach to estimating the potential for institutions to reach compliance under these different capital constraints, as well as the LCR.

Furthermore, pursuant to Article 511(4)(a) of the CRR, the EBA is working on the assessment of potential effects of introducing a leverage ratio requirement on for example:

financial markets, robustness of institutions, balance sheet structures, institution's risk-taking behaviour, clearing, settlement and custody activities, and operations of CCPs, cyclicity of the capital and total exposure measure, lending to SMEs, local authorities, regional governments, public sector entities and trade financing. Although data from the EBA Voluntary QIS Exercise can be useful for these assessments, qualitative approaches such as literature reviews, stylised balance sheet examples, case studies and expert review will be essential.

Enhancing the framework for credit risk

IRB Approach — prospects for 2016 and further

In 2016, the EBA will report on its regulatory review of the IRB Approach, in particular to summarise the responses received to the Discussion Paper on the future of the IRB Approach and the EBA's consideration of how best to incorporate in its future work the views expressed by respondents. The EBA will also clarify its proposals in relation to the focus of regulatory developments on aspects of the IRB Approach that require more harmonised application within the requirements of the CRR and its proposed timeframe for the development of regulatory products such as technical standards and guidelines in the area of the IRB Approach.

In 2016, efforts are likely to focus on the finalisation of Phase 2 of the IRB work^[50], related to the definition of default and on the development of regulatory products related to the estimation of risk parameters and the treatment of defaulted assets that are envisaged under Phase 3.

It is planned that both these Guidelines on the definition of default and the draft RTS on the materiality threshold will be published by mid-2016.

In 2016, the EBA will continue the work on the regulatory products envisaged under Phase

^[50] Phase 1 involved the development of the RTS under Articles 144(2), 173(3) and 180(3)(b) of the CRR on IRB assessment methodology.

3 and will focus predominantly on developing draft Guidelines on the PD and LGD estimations and on the treatment of defaulted assets. It is planned that these Guidelines will provide comprehensive guidance on all aspects related to modelling and maintaining high-quality risk estimates.

By providing common definitions and uniform understanding of regulatory requirements, the undue variability of the modelling practices and the resulting risk estimates will be significantly reduced.

The EBA expects that the implementation of the changes introduced by the regulatory review of the IRB Approach will lead to increased comparability of risk parameters and capital requirements and will hence contribute to an enhanced level playing field for institutions.

Reviewing the impact of proportionality

The principle of proportionality is central within the EU banking regulation. It recognises the importance of the diversity of the EU banking system and explicitly refers to the need to apply rules in such a way that this diversity is acknowledged and preserved. Although always keeping in mind the basic premise that the Single Market needs a Single Rulebook, the EBA recognises the importance of the proportionality principle and assigns great importance at developing effective prudential regulation which is targeted and proportional to the size, complexity, business model and risk profile of institutions.

The EBA has made an effort to incorporate in its technical standards and guidelines a range of measures that would provide some types of institutions with relief in the application of rules, which would be otherwise undeservedly strict.

Recognising the importance of dialogue with stakeholders to gain specific insights and evidence, the EBA organised a Proportionality Workshop on 3 July 2015. This workshop had the participation of over 130 delegates, debating and exploring themes on proportionality including: proportionality versus simplicity in the banking rulebook; current work streams on

proportionality and simplification; approaches to delivering proportionality in practice (are we using the right methods and what evidence base is needed). Speakers and panellists comprised leading academics, policy-makers, industry leaders and decision-makers.

The EBA is ambitious in its plans to examine further facets of proportionality and simplicity in 2016 and intends to host a round table with CAs and industry to inform work on embedding proportionality into its regulatory products, including guidelines and technical standards.

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The key objective of the review of the IRB Approach is to reduce variability in internal modelling practices and ensure more comparable and risk-sensitive capital requirements. This will be achieved not only through the review of regulatory framework but also by increasing supervisory consistency and improving transparency.

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Dorota Siwek

POLICY EXPERT IN THE
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POLICY UNIT

Resolving Europe's legacy assets (NPLs)

One of the main goals for the European banking sector in the near future is tackling and resolving NPLs. In this context, the EBA will continue to monitor developments in NPLs by providing regular updates in its Risk Dashboards and Risk Assessment Report and possibly producing ad hoc studies.

In addition, the EBA plans to make a stocktake of the country-specific NPL resolution practices, identifying overall factors which create an impediment for NPL resolution. On the one hand, it will focus on country-specific factors, such as complexity of solvency procedures or tax treatment of provisions for NPLs, and, on the other, it will centre on the general factors, such as the effectiveness and transparency of NPL markets.

If the findings show that changes in procedures or coordinated actions are needed, the EBA will put out policy statements.

Facilitating the implementation and understanding of IFRS 9 in relation to banks in the EU

In the context of the forthcoming implementation of the IFRS 9 in the EU, in 2016, the EBA will be launching an impact assessment of the standard on a sample of approximately 50 institutions across the EU. This exercise, which is not linked to the adoption process of the standard taking place at the legislative level, will help the EBA understand the estimated impact of IFRS 9 on regulatory own funds, how institutions are preparing for the application of IFRS 9 (including the stage of implementation and the application challenges) and support the EBA in assessing the interaction between IFRS 9 and other prudential requirements. This exercise could also help institutions to prepare for the application of IFRS 9.

The EBA acknowledges that institutions are in the process of developing the necessary processes, models and capabilities for the implementation of IFRS 9 and that the quality of the information provided in this exercise is to be improved in the future. In this context, the EBA envisages repeating this exercise over time, especially closer to the implementation date of IFRS 9. During the second half of 2016, the EBA will analyse the information received and decide on the way forward.

The EBA is also working towards the implementation of IFRS 9 in the EU through the development of EBA Guidelines to introduce in the EU regulatory framework the BCBS Guidance on credit risk and accounting for expected credit losses published in December 2015. The objective of the EBA Guidelines is to set out the supervisory approach for a high-quality and consistent application by credit institutions of the new expected credit loss model in accordance with the applicable accounting framework. The EBA envisages finalising these Guidelines during 2016.

The EBA started preparations for amending the harmonised supervisory reporting framework, and financial reporting in particular, to make the necessary changes due to IFRS 9. In 2016, the EBA will finalise and publish the draft technical standards for amending FINREP, which will provide institutions with sufficient time to implement the changes in their systems before the application of IFRS9 and the new FINREP.

Promoting Compliance, Comparability and Consistency for supervisory practices in the EU

Supervisory convergence will continue to be a priority on the EBA's 2016 agenda. The first Annual Report on supervisory convergence, submitted to the European Parliament and the Council in 2015,^[51] identified good progress amongst CAs but also differences in some aspects of supervisory methodologies, supervisory practices and supervisory outcomes. Therefore, the EBA will continue promoting the effective functioning of the Single Market through the development of policy products, provision of training and close support to supervisory colleges of the largest cross border banking groups.

In particular, in 2016, the focus will be on:

- monitoring supervisory convergence and in particular the implementation of the SREP guidelines;
- issuing policy products that complement the SREP guidelines;

^[51] EBA report on convergence of supervisory practices; <https://www.eba.europa.eu/-/eba-ongoing-progress-on-supervisory-convergence-is-vital-for-the-single-market>

- organising EBA training programmes;
- engaging with supervisory colleges.

Monitoring supervisory convergence through onsite reviews

In the context of building a common supervisory culture and promoting consistent supervisory practices the EBA will, for the first time, organise a series of bilateral visits to the SSM and the nine non-SSM CAs to carry out in depth reviews into current supervisory practices on certain topics. The aim of these bilateral onsite visits is to identify challenges faced by supervisors and consider how to best address them in order to cultivate supervisory convergence and bring about strong supervisory standards in the Union. One of these areas is the current SREP methodology landscape where the EBA will devote substantial efforts to engaging with CAs to assess methodologies and the functioning of SREP. The EBA will review the practicalities of rolling out the SREP framework across the EU and identify the main difficulties encountered by CAs in its practical application. This will provide the EBA with an overview of the degree of convergence brought about by the guidelines. The findings will then feed into the EBA annual Supervisory Convergence Report which will also be published.

A second objective of these visits will be to engage with supervisors involved in supervisory colleges to discuss college topics and challenges faced in fulfilling college tasks from both a home and host perspective. The outcome of these discussions will serve to inform the EBA approach to supervisory colleges in 2016 and help the EBA support the consistent application of the relevant legislation or guidance.

Issuing policy products that complement the EBA common SREP guidelines

Further to the implementation of the common SREP guidelines in January 2016, the EBA is developing a range of guidelines on Pillar 2 issues to complement the existing SREP guidelines. Namely, these guidelines will cover stress testing, internal capital adequacy assessment process (ICAAP) and internal liquidity adequacy assessment process (ILAAP), the treatment of CVA risk under the SREP as well as ICT risk assessment.

The EBA will finalise the Guidelines on stress testing, both to update the CEBS Guidelines on institutions' stress testing (GL 32), published in 2010, and to cover the supervisory stress testing (on Article 100(2) of Directive 2013/36/EU basis). In addition, these updated guidelines will ensure consistency with the EBA Guidelines on common procedures and methodologies for SREP.

As a result, these future guidelines will cover, not only the institutions' stress testing (by reviewing the previous guidelines) but also the supervisory assessment of the institutions' stress testing, supervisory stress testing and the use of the outcomes of stress tests for capital adequacy purposes. Moreover, these guidelines will reflect the conclusions of the peer review of the implementation of the CEBS Guidelines on stress testing (GL32).

In 2016, the EBA will conclude its Guidelines for ICAAP and ILAAP information to be collected for the purposes of SREP. These Guidelines aim at facilitating the consistent approach to the supervisory assessment of ICAAP and ILAAP frameworks as well as the assessment of the reliability of institutions' own capital and liquidity estimates as part of SREP, following the criteria and methodologies specified in the EBA Guidelines on common procedures and methodologies for SREP.

These Guidelines will not set any new criteria for ICAAP or ILAAP or their supervisory assessment, but focus on the information that CAs should collect from institutions in order to perform their assessments. They also set the criteria for CAs to organise the collection of ICAAP and ILAAP information from institutions taking into account the principle of proportionality in relation to the frequency, reference and remittance dates, scope and level of detail of the information collected. The EBA plans to finalise these Guidelines for the 2017 cycle of SREP and joint decisions. CAs are, however, encouraged to use Consultation Papers to structure their ICAAP and ILAAP information requests already in 2016.

The EBA Guidelines on the treatment of CVA risk under the SREP will provide a common approach to the treatment of CVA risk under SREP and will provide guidance to CAs on how to (1) determine the relevance and materiality of CVA risk for an institution, (2) assess any material CVA risk under SREP, (3) assess the adequacy of own funds to cover material CVA

risk, and (4) determine additional own funds requirements, where the risk is not adequately covered by the minimum own funds requirements, in particular due to the exemptions in the EU legislative framework.

These Guidelines were published for consultation in November 2015 and implement the policy recommendation contained in the EBA's CVA report published in February 2015, where it was recommended to set out a common supervisory approach to prudential treatment of excessive CVA risk. In parallel with the public consultation, the EBA is collecting data from around 200 institutions for the purposes of a QIS. This will ensure appropriate calibration of the threshold values and assessment of the impact of these draft Guidelines, which will be finalised in 2016 taking into account the outcomes of the public consultation and the QIS.

Recognising the increased interest and supervisory concerns surrounding ICT risk, a priority for the EBA is to develop Guidelines to help supervisors in assessing ICT risk as part of the SREP. These Guidelines will go beyond the content on ICT risk assessment in the existing SREP Guidelines, under operational risk, and provide details to supervisors for assessing ICT governance, ICT-related institution-wide controls and ICT risks to capital to feed into the Guidelines for common procedures and methodologies for SREP. These Guidelines are due to be published for public consultation in 2016.

EBA training programmes

The EBA will once again be increasing its training programmes, with 30 planned training events for 2016. At the end of 2015, the EBA engaged directly with Competent and Resolution Authorities through a joint ESAs' Training Needs Questionnaire to identify the topics for training. This is now reflected in the 2016 training programme.

In addition, four online modules on Recovery Planning and an additional module on the SREP process and methodology have been scheduled for 2016. For the first time, EBA expertise will be accessible by a larger number of supervisors and policy staff from their home authorities. Participants in these courses will develop their knowledge on the topics through video lectures and interactive case study work, with guidance and feedback from the EBA staff provided through web conferences.

Supervisory colleges

As in 2014, the conclusions of the EBA's college oversight work in 2015 will feed into the EBA Action Plan for Colleges in 2016. Apart from the regular supervisory tasks and processes under the annual joint decision cycles, the Action plan will also focus on the need for supervisors to consider how key risks identified by the EBA affect each large cross-border credit institution, for example, ongoing balance sheet cleaning and NPLs reduction for legacy portfolios and the sustainability of banks' business models, as well as conduct and IT risk.

Conducting the 2016 EU-wide stress test and transparency exercises

In 2016, the EBA will again carry out the EU-wide stress test, designed to provide supervisors, banks and other market participants with a common analytical framework to consistently compare and assess the resilience of EU banks to economic shocks. The previous EU-wide stress tests concentrated on restoring confidence in banks' capital positions. However, since banks have been substantially recapitalised in the past few years the new goal is to preserve the level of capital. Therefore, for this 2016 exercise, no single capital thresholds have been defined. Nonetheless, the results will inform the 2016 round of SREP under which decisions are made on appropriate capital resources.

The 2016 EU-wide stress test is based on a common methodology, which assesses solvency and covers all main risk types including: credit risk and securitisation, market risk, sovereign risk, funding risk and operational and conduct risks. The 2016 EU-wide stress test is run on banks' models and the results are then challenged by supervisors in the relevant CAs. To ensure consistency, the methodology contains key constraints such as a static balance sheet assumption, which precludes any mitigating actions by banks, and a series of caps and floors, for example on RWAs and net trading income. In 2016, no pass/fail threshold has been included as the objective is to use the stress test as a supervisory tool, whose results will be discussed with individual banks in the SREP process, where mitigating actions may also be considered.

The adverse scenario, designed by the ESRB, reflects the four systemic risks that are currently assessed as representing the most material threats to the stability of the EU banking sector: i) an abrupt reversal of compressed global risk premia, amplified by low secondary market liquidity; ii) weak profitability prospects for banks and insurers in a low nominal growth environment, amid incomplete balance sheet adjustments; iii) rising of debt sustainability concerns in the public and non-financial private sectors, amid low nominal growth; iv) prospective stress in a rapidly growing shadow banking sector, amplified by spillover and liquidity risk.

The EBA is responsible for coordinating the exercise and will act as a data hub for the final dissemination of the results in line with its commitment to enhancing the transparency of the EU banking sector. CAs will check the quality of the results and decide on any necessary supervisory reaction measure as part of the SREP process. The results of the stress

test will be published in early Q3 2016, accompanied by the usual disclosure of bank by bank data. Additional transparency exercises on a wider sample of banks could be also carried out as part of the regular risk assessment.

Enhancing the consistency of RWAs

The EBA will continue to work on addressing possible inconsistencies in the calculation of RWAs across the EU Single Market with the aim of restoring confidence in EU banks' capital and internal models. The benchmarking exercises will take place annually, since they allow, with its assessment of differences in RWAs across EU institutions, an identification of potential underestimation of capital requirements (Article 78 of the CRD).

In March 2015, the EBA submitted its final draft ITS on benchmarking portfolios to the Commission, proposing 11 April of each year,



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The EBA will conduct its third EU-wide stress test in 2016, which will include some new features compared to the 2014 exercise, notably the alignment with the cycle of the annual SREP and also the broadening of the scope of risks covered. For the first time conduct risk and forex (FX) lending will be included. During the second half of 2015, the EBA in close cooperation with the different CAs and the SSM, developed the methodology and templates that support the exercise. The EBA is also in charge of coordinating the FAQ process, addressing banks' and CAs' questions in order to facilitate the process and to preserve consistency. Finally, as the coordinator of the exercise at EU level, the EBA is the guardian of the data reported by all the banks until the publication date. This role allows us to support CAs through the quality assurance process and to act as the hub for the final publication of the individual data for all the banks in the sample.

My role in the stress test team is focused on the coordination of the work-streams in charge of the new methodology for conduct risk, the revised approach to net interest income (NII) and the FAQ process on these topics. The definition of the conduct risk methodology has been challenging, due to the novelty and sensitiveness of the topic and to the fact that it requires a more qualitative treatment compared to other risks. In the final phases of the exercise, I will be supporting CAs in their quality assurance process, namely with reference to the above topics and drafting the final report.

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starting in 2016, to be the date when banks deliver the data for benchmarking (remittance date). Since the Commission did not adopt the final draft ITS before the end of 2015 the initial proposed remittance date for 2016 was postponed. The new remittance date in 2016 is pending and depends on the timeline of adoption of the ITS by the Commission.

The EBA will carry out the benchmarking exercises, which will be for the first time formally conducted under the ITS and RTS framework. With the framework in place the number of participating banks for credit risk internal models will increase significantly. In 2016, the key areas of focus for the supervisory benchmarking exercises for credit risk are the High Default Portfolios (HDP), in particular SME and residential mortgages.

The EBA will carry out the benchmarking exercises, which will be for the first time formally conducted under the ITS and RTS framework. The draft ITS will specify the benchmarking portfolios as well as the templates, definitions and IT solutions that should be applied in the benchmarking exercise for market and credit risk. The draft RTS, on the other hand, will specify the procedures for sharing the assessments between the CAs and with the EBA. In addition, they will clarify the standards for the assessment by CAs of the internal approaches applied to calculating own funds for market and credit risk. With the framework in place the number of participating banks for credit risk internal models will increase significantly. In 2016, the key areas of focus for the supervisory benchmarking exercises for credit risk are the High Default Portfolios (HDP), in particular SME and residential mortgages.

The HDP exercise will include all the remaining portfolios not considered as low default portfolios (governments, financial institutions and large corporate). Article 78 of the CRD requires that CAs assess, at least annually, the consistency and comparability of RWAs produced by institutions' internal modelling approaches (except for operational risk) for which CAs have granted permission to be used for capital purposes. The main focus of the methodology for HDP is comparison of observed and estimated values (back-testing) for the most important parameters and studying their extreme values and estimates below or above certain threshold.

The EBA will also carry out a market risk benchmarking exercise, which will include

35 general portfolios (28 individual and 7 aggregated). For the exercise, the EBA will check the consistency of the Value at Risk (VaR), Stressed Value at Risk (s-VaR), Incremental Risk Charge (IRC) and All Price Risk (APR) models.

Revised version of Pillar 3

Increasing the quality and the quantity of banks' disclosures improves transparency in the markets. Therefore, the EBA will work further on improving Pillar 3 requirements. The revised Pillar 3, which was released in January 2015, by the Basel Committee, has not yet been put in force in the EU. In its last comparison of the Pillar 3 disclosures under the CRR and changes introduced by BCBS, the EBA found that the revised BCBS Pillar 3 framework is more specific than the current CRR. This is due to the provision of templates for the presentation of quantitative information regarding credit risk, market risk and securitisation, and of additional specifications regarding qualitative requirements, for instance on the characteristics of the internal models used. There are also some differences regarding disclosure requirements, with some being specific to the revised BCBS Pillar 3, such as disclosures on the linkages between financial and regulatory exposures, and others to the CRR, like disclosures on unencumbered assets or on governance. Therefore, in 2016 the EBA will be working on guidelines to implement the revised Pillar 3 framework in the EU.

Ensuring a consistent implementation of the new crisis management framework

With the BRRD and DGSD mostly implemented, the EBA will intensify its efforts to support and monitor the harmonised implementation of the crisis framework and contribute to the consistent development and coordination of effective resolution planning across Europe.

In order to achieve this objective, the EBA will complete the following.

- (i) Produce a report on the MREL, in line with the BRRD legal mandate. This report will contribute to the harmonised application of MREL across the Union and its alignment with the TLAC standard (as it will be incorporated in EU law). However, impediments to its successful delivery include

the delay in the transposition of the BRRD by some Member States and the endorsement of the RTS on MREL by the Commission, which have limited data availability.

- (ii) Attend and support resolution colleges for major banking groups contributing to the resolution planning discussion. In particular, the EBA will focus on cooperation across Resolution Authorities and the effective functioning of the college, including joint decisions, for the purpose of promoting convergence in these fields.
- (iii) Review and assess resolution cases to identify resolution implementation approaches, areas of divergences and key lessons learned.
- (iv) Provide training to Resolution Authorities to facilitate a common understanding, improve quality and promote the development of common approaches to resolution across authorities.
- (v) Perform a comparative analysis of resolution plans and their core aspects and develop short practical guides addressed to Resolution Authorities to support the practical implementation of specific areas of regulation.
- (vi) Continue its involvement with the FSB, focusing on informing the international calibration on resolution planning and loss-absorbing capacity. The EBA will also follow closely the developments in the area of financial market infrastructures, aiming to foster understanding of the links between financial market infrastructures and financial institutions and the broader systemic implications of resolution actions in this sector.
- (vii) Continue to contribute to the BRRD Q&A tool. A Q&A tool for DGSD matters is also under development.
- (viii) Participate in a work stream established by EIOPA to examine the approach to Recovery and Resolution Planning in the insurance industry. The EBA endeavours to bring the experience it has gained in the banking industry in recent years to the deliberations.

Protecting consumers and monitoring financial innovation

In 2016, the EBA will produce several sets of regulatory requirements to address consumer detriment arising from the banking products that fall within its scope of action with specific focus on innovation but will also focus on promoting supervisory convergence. For example, in relation to the mandates in the PAD, the EBA will consult on the draft RTS on the standardised terminology for the most common services to at least a majority of Member States. The identification of such services is based on the national provisional lists of the 10 to 20 most representative services linked to a payment account and subject to a fee. In addition, the EBA will consult on two ITSs for disclosure documents to facilitate the comparison of the costs of payment accounts; i.e. on Fee Information Document and Statement of Fees and its common symbols and their presentation formats will be prescribed by the ITSs. In so doing, the EBA will take into account the results of extensive consumer testing that it will be carrying out with these documents across a number of different EU Member States.

The EBA will finalise its Guidelines on the remuneration of sales staff, which will supplement the prudentially focused EBA Guidelines on Sound Remuneration Policies that were issued in December 2015.

In the area of financial innovation, the EBA will focus on innovative uses of consumer data by financial institutions with an aim to identify the risks and benefits of these innovative uses of data, for both consumers and financial institutions. The EBA will assess which, if any, additional regulatory action is required to ensure that identified risks of this innovation are appropriately mitigated while the potential benefits of this innovation can be harnessed. The EBA will publish a Discussion Paper on this topic during the spring of 2016.

Finally, the EBA will do a stock-take of the national market and regulatory developments with regard to virtual currencies.

Developing mandates under PSD2 and IFR

A key activity for the EBA in 2016 will be the development of the RTSs and guidelines under the PSD2 and the Interchange Fee Regulation (IFR).

The PSD2 entered into force in January 2016 and will apply from January 2018 onwards. It confers eleven mandates on the EBA, some of which the EBA will have to deliver within 12 months of entry into force, while others are due within 18 or within 24 months. By way of following up on the three discussion papers and consultation papers it had published in December 2015, the EBA will analyse the responses received to the Discussion Paper on strong customer authentication and secure communication and will progress to issue a

Consultation Paper in the summer of 2016. The EBA will also finalise the RTS on the framework for cooperation and exchange of information between CAs for passporting. Furthermore, the EBA will consult on the guidelines on criteria to be considered by CAs when stipulating the minimum monetary amount of the professional indemnity insurance; on the guidelines on authorisations of PIs, on the Guidelines on complaints procedures for national competent authorities and on the RTS on supervision.

Additionally, in close cooperation with the ECB, the EBA will finalise the RTS under the IFR to ensure that payment card schemes and processing entities are independent from one another in terms of accounting, organisation and decision-making processes.



Geoffroy Goffinet

SENIOR RETAIL
BANKING EXPERT IN THE
CONSUMER PROTECTION,
FINANCIAL INNOVATION
AND PAYMENTS UNIT

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The most critical PSD2 mandate is related to the RTS on strong customer authentication and secure communication that will have to define the security requirements for all electronic payments, including payments on internet, as well as the framework for communication between banks and their new competitors, also referred as Third Party Providers.

It will be the first time that security requirements for electronic payments will be defined in EU law. So consultation and dialogue with all stakeholders is even more crucial.

The key objective of our work is clear: ensuring the development of secure and innovative electronic payment instruments for the benefit of 500 million European consumers.

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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, such that they are informed of, and have the possibility to provide input to the EBA's work in the process of development of its work, especially in relation to the Single Rulebook.

A key part of the EBA's engagement with stakeholders is through its 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 to the EBA 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 and financial innovation.

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 the alleged breach or non-application of Union law.

The BSG has provided its input through responding to EBA's public consultations as well as by providing informal feedback and contributions to the EBA's work on technical standards and guidelines. In 2015, the BSG provided opinions on 24 Consultation Papers, including two submissions to Joint Committee's Consultation Papers and 4 responses to EBA Discussion Papers e.g. in relation to consumer protection, securitisation, SMEs supporting factors and IRB Approach.

The second term of the BSG commenced in 15 October 2013^[52] and is due to finish on 14 April 2016. Of the 30 members of the BSG, ten are delegates from credit and investment institutions, three of which represent savings or cooperative banks, ten are representatives of consumers and users, six are academics, two represent SMEs and two are employees' representatives. The BSG elected David T Llewellyn, Professor of Money and Banking at Loughborough University in UK, as its Chairperson, and Andrea Resti, Professor in Banking and Finance at Bocconi University in Milan, as the Vice-Chairperson. Five new members of the BSG were selected as replacement of members that had resigned over the course of 2015, for different personal reasons. In each case, the EBA carried out a selection process from the original list of applicants to the second 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^[53]. The EBA launched a Call for Expression of Interest in early October 2015 for 10 weeks to renew its BSG.

The BSG established three standing technical working groups, namely: Capital and Risk Analysis Group, Recovery, Resolution and Systemic Issues Group and Consumer Issues and Financial Innovation Group. Furthermore, the BSG set up an ad hoc Working Group on the Principle of Proportionality, which will present the results of its work in January 2016 through the publication of a report.

In 2015, the BSG held five regular meetings and two joint meetings with the EBA's BoS.

^[52] EBA appoints new stakeholder group, <https://www.eba.europa.eu/-/eba-appoints-new-stakeholder-group>

^[53] *Putting it right*, A report on the implementation of the Ombudsman's recommendations by agencies for the period 1 July 2009 to 31 March 2013, published in June 2013, <http://www.ombudsman.sa.gov.au/wp-content/uploads/Putting-it-right.pdf>

Also, 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 2015 or as presenters at the EBA's workshop on Proportionality in July 2015 and at the EBA's research workshop, The financial regulation and the real economy: a micro-prudential perspective, in November 2015.

With the aim to ensure 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.

BOX 5 — New legislative proposals in the area of resolution

COORDINATING WORK WITH THE SSM

The establishment of Banking Union with the SSM taking on responsibility for supervision of the largest banks in the Eurozone has meant the EBA mandate of supervisory convergence takes a new dimension as there is a new and important stakeholder bringing about convergence to the bank's under its supervision. The EBA's role of harmonising rules and promoting convergence of supervisory practices across the EU is necessary now between the SSM, the largest single supervisor of the EU, and the non-Eurozone CAs. Throughout 2015, the first full year of the SSM's existence, the EBA closely cooperated with the SSM to ensure compliance with Union rules, consistency in supervisory practices, and comparability in supervisory outcomes. This cooperation was activated not only at management levels but also at operational levels, both policy and supervision and included dedicated EBA training to SSM staff.

One area where the EBA has focused support to the SSM in the past year has been the re-establishment of colleges of supervisors, as the SSM is the consolidating supervisor for the majority of supervisory colleges

followed by the EBA. The SSM's approach to cross-border supervision contributed to an increase in the levels of interactions in supervisory colleges and ensured further convergence in SREP processes and a certain level of consistency in the supervisory outcomes across the Banking Union. Nonetheless, challenges in harmonisation remain therefore the EBA will continue to devote resources to engaging closely with the SSM to promote consistent supervisory practices.

COORDINATING WORK WITH THE SRB

The SRB started its work on developing resolution plans for credit institutions in January 2015 and is now fully operational, with a complete set of resolution powers since 1 January 2016. Since the establishment of the SRB, the EBA has participated actively in the various committees and contributed to specific working groups, providing its experience and broad overview of resolution planning in the EU. The EBA is particularly aware of its role in bridging Single Resolution Mechanism (SRM) and non-SRM countries and ensuring consistent practices of Resolution Authorities between participating and non-participating Member States.

Promoting mediation

Pursuant to the EBA Regulation, it is the task of the EBA to contribute to the consistent application of legally binding Union acts. This role is achieved by the application of different powers, from one of which is the settlement of disagreements between CAs. In line with the EBA Regulation, mediation may be performed by using the procedure for the binding settlement of disagreements between CAs or by non-binding mediation.

Although there have been several cases of disagreements between CAs, during 2015 the EBA has not been approached with a request to provide its assistance in one of these formal procedures on mediation. Nonetheless, the EBA played an important role in providing its assistance to settle disagreements between CAs in an informal way. Furthermore, in order to raise the awareness among the NCAs on the role and features of the mediation processes, the EBA organised a Mediation Workshop and provided internal training for the EBA Staff.

Breach of Union law

Ensuring the correct and full application of Union law is a core prerequisite for the integrity, transparency, efficiency and orderly functioning of financial markets, the stability of the financial system, and for neutral conditions of competition for financial institutions in the Union. Therefore, a mechanism has been established by the EBA Regulation whereby the Authority addresses instances of non-application or incorrect application of Union law. The EBA is required, upon request or on its own initiative, to investigate the alleged breach or non-application of legally binding acts of the Union law in the competence of the EBA. Over 2015, nine cases of possible Breach of Union law have been evaluated. By the end of 2015, the majority of them were closed as the requests were found to be inadmissible, the status on the remaining will be decided during 2016 when their proper evaluation will be concluded. None of the requests addressed to the EBA under Article 17 of the EBA Regulation led in 2015 to the adoption of a Breach of Union law recommendation.

Conducting peer reviews

Another tool that the EBA uses to foster consistency in supervisory outcomes is through conducting peer reviews of activities of CAs, in line with Article 30 of the EBA Regulation. The peer review work is carried out by the EBA's Review Panel, using a peer review methodology agreed by the EBA's BoS in June 2012. The peer review seeks to assess supervisory implementation practices, such as of EBA regulatory products, including an assessment of the adequacy of CAs' resources and governance arrangements, the degree of convergence in the application of these supervisory practices, including legal frameworks and guidance; and seeks to identify best practices developed by CAs. The results of a peer review can lead to identification of best practices which might be of benefit for other CAs to adopt, to issue changes to existing guidelines and recommendations, inform technical standards under development, and/or result in the EBA providing an opinion to the EU Institutions, as appropriate.

In 2014, all CAs underwent a peer review in relation to their adherence to the EBA Guidelines on the assessment of the suitability of members of the management body and key function holders (EBA/GL/2012/06). This peer review started in the second half of 2014 and the final report was approved by the BoS in June 2015. The peer review consisted of a self-assessment undertaken by CAs, followed up by the review-by-peers phase. The EBA further conducted eight on-site visits to CAs based on the outcomes of the desk-based peer review of the Guidelines 06 to supplement its final assessment. The final report, listing all findings from the peer review and from the on-site visits, was published in July 2015.

This Peer Review Report gave an overview of the NCAs/CAs' adherence to the provisions of the Guidelines. Overall, the peer review results indicated that CAs 'largely' or 'fully apply' the Guidelines regarding the suitability of members of the management body and key function holders. Furthermore, the Review Panel identified some best practices in the CAs' supervisory practices regarding the assessment of the suitability of members of the management body and key function holders. However, numerous divergences in supervisory practice

were observed. Therefore, the EBA viewed that there was a need to foster enhanced convergence of supervisory practices in some observed areas, and as a minimum, to establish a list of minimum criteria/requirements to increase the quality and effectiveness of the general provisions set out in CRD IV and facilitate not only convergent practice but also enhanced supervisory practice. With a view to establishing consistent, efficient and effective supervisory practices, the Review Panel recommended to the EBA that most of the best practices could be embedded in a revised version of these EBA Guidelines in accordance with its mandate under Article 30(3).

Moreover, with the view to ensure the further harmonisation of prudential rules and mitigate the effect of continuing divergent supervisory practice, the EBA proposed that it should submit an opinion to the Commission proposing a legislative initiative to pro-

vide a clearer definition of Key Function Holders (KFH). This would have better defined the criteria used to assess the suitability of KFH, including the reputation of KFH which is not assessed by a number of CAs and the scope of the assessment of KFH by institutions and CAs, and would have enhanced cooperation between the CAs regarding the suitability assessment, in accordance with the mandate under Article 30(3a) of the EBA Regulation. However, the BoS did not support this Opinion and it was decided to include those elements in the revised Guidelines on the assessment of the suitability of members of the management body and key function holders which is currently under review.

Furthermore, the BoS decided to carry out a peer review of the ITS on supervisory reporting requirements on 27 October 2015. Thus, the Review Panel issued a self-assessment questionnaire in Q4 2015. The main objective of this



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The impact assessment team provides the EBA decision making bodies with evidence on the impact of proposed or already implemented regulatory requirements on EU banks, in view to assist the formulation of a common EU policy stance. To this end, we have been coordinating the conduct of regular and ad hoc Quantitative Impact Studies (QIS) at EU level, and also providing steer to NCAs on QIS exercises. To fulfil these tasks, we closely cooperate with the EBA's international counterparts, e.g. Bank of International Settlements (BIS) Secretariat and the BCBS's sub-groups.

The conduct of QIS does not only require the deep knowledge of social sciences and microprudential supervision, but also expertise in interpreting the findings. For instance, the BCBS proposed revisions to the existing Basel III framework for the treatment of internal models requires an understanding of not only market, credit and operational risk assessment but also of leverage ratio calculations to evaluate the interactions amongst different regulatory capital requirements. At the EBA, we are assessing, inter alia, the impact of the proposed BCBS revisions on EU banks.

We consider our assessments and studies as the starting point and the driving force for modern EU policy making. By conducting QIS, the EBA ensures that its work and EU banking regulation in general are based on data, evidence and objective assessments.

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questionnaire, as defined in the Terms of Reference that was approved by the BoS, was to deliver an assessment on the completeness, the timeliness and the correctness of the data reported by CAs to the EBA, but also on the processes that the CAs put in place with respect to supporting the application of the ITS, including validation rules. The peer review also seeks to assess how the CAs' processes take into account the answers provided to supervisory reporting questions raised under the EBA's Q&A tool and as to whether CAs regularly seek, from their supervised institutions, additional data for CRD supervisory purposes, and if so, for what purpose. However, the peer review excludes an assessment of the annexes to the ITS and also the templates related to data on liquidity, except for NPEs, forbearance loans, asset encumbrance — which is integrated in the scope of this peer review.

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 assessment 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 EBA's semi-annual analysis of the impact of CRD IV-CRR/Basel III rules on European credit institu-

tions' capital, liquidity and leverage ratios and the estimated shortfalls relating to the lack of convergence with the fully implemented framework, the CRD IV-CRR/Basel III monitoring exercise.

In addition, the EBA supports the development and implementation of banking regulation in Europe by drafting dedicated reports assessing the impact of the calibration of regulatory requirements on leverage and on liquidity as mandated by the relevant banking legislation (CRD IV-CRR). Also, the analytical expertise of the EBA is sought by the EU co-legislators to inform them on the associated costs and benefits of technical options for their development of delegated acts, for instance in the area of BRRD.

Impact of the transposition of the Basel III requirements in the EU

In 2015, the EBA published two reports monitoring the impact of the transposition of the Basel III requirements in the EU — in March for data as at June 2014, and in September for data as at December 2014, under a static balance sheet assumption. This exercise, run in parallel with the one conducted by the BCBS at a global level, gathered aggregate results on capital, risk weighted assets, liquidity and leverage ratio for banks in the EU. A total of 148 and 364 EU banks participated in the two exercises respectively, of which 40/53 banks form Group 1 banks (the largest internationally active European banks with a Tier 1 capital exceeding EUR 3 billion).

Impact of liquidity coverage requirements in the EU

Due to the timeline of the Delegated Act on the LCR adopted by the Commission in October 2014, in 2015 the EBA did not carry out an annual LCR Impact Assessment report as mandated under Article 509(1) of the CRR. The EBA will produce in 2016 the LCR Impact Assessment report accounting for the specificities of the Delegated Act and a monitoring report on the phasing-in of the LCR as mandated under Article 461 of the CRR.

Maintaining the Interactive Single Rulebook

The Single Rulebook Q&A tool continues to function as an important interface for CAs, institutions and their associations, as well as other stakeholders, to submit questions on the practical application and consistent implementation of EU regulation in the EU banking sector. The tool facilitates clarifications on the CRD IV, the CRR and, since the beginning of 2015, also the BRRD. In addition to the Level 1 legislative texts, the scope of the tool also covers related technical standards (RTS and ITS) developed by the EBA and adopted by the Commission as well as EBA Guidelines.

The Single Rulebook Q&A drives the application of the regulatory framework in a consistent and effective manner across the EU Single Market; they play a significant role in contributing to the building of the Single Rulebook in banking regulation. The process entails close and ongoing interaction between the EBA, its members and the Commission, to ensure the answers are fully consistent with EU legislative texts.

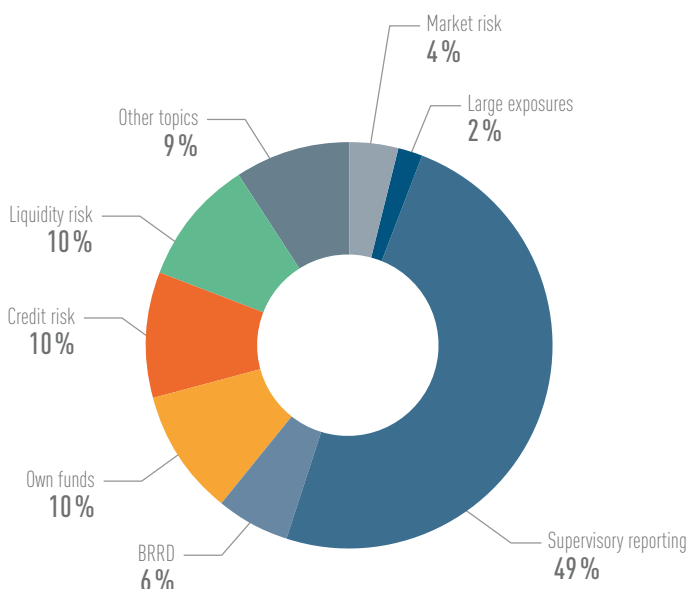
Much work has gone into answering questions from stakeholders regarding the interpretation and implementation of Single Rulebook: at 31 December 2015 around 2, 550 Q&As (compared to 1, 700 at the end of 2014) have been submitted via the web interface^[54]. Of these about 930 Q&As have been rejected or deleted (up from about 600 at the end of 2014), about 830 Q&As have been answered (up from about 580 at the end of 2014), while about 790 Q&As are under review (up from about 580 at the end of 2014). Furthermore, of the 790 Q&As that are under review, 90 are on the BRRD, the remaining are on the CRR-CRD, with the large majority (about 75 %) focusing on reporting issues, followed by liquidity risk, credit risk and market risk.

These figures are indicative of the still significant demand for clarity with respect to the legislative and regulatory frameworks that are covered within the scope of the Q&A tool and, more generally, for the Single Rulebook in banking.

In 2015, around 70 questions were submitted on average per month via the Q&A tool on the EBA website. During the same period, the Q&A tool was the single most visited section of the EBA website. The Q&A tool offers users a facility that allows the export of all final Q&As (or a particular subset) in PDF format, through a link to the tool’s search function.

The Interactive Single Rulebook (ISRB) was launched in 2014. It provides a comprehensive compendium of the Level 1 texts for banking supervision (CRR / CRD IV). This was extended to include the BRRD in early 2015. The ISRB provides links from the Articles of Level 1 texts to their associated technical standards or guidelines as well as Q&As relating to the corresponding Level 1 provisions. The ISRB continues to be well received by stakeholders and is viewed as a useful tool.

Figure 22: Q&A submitted by topic



[54] EBA Single Rulebook Q&A tool, <https://www.eba.europa.eu/single-rule-book-qa>



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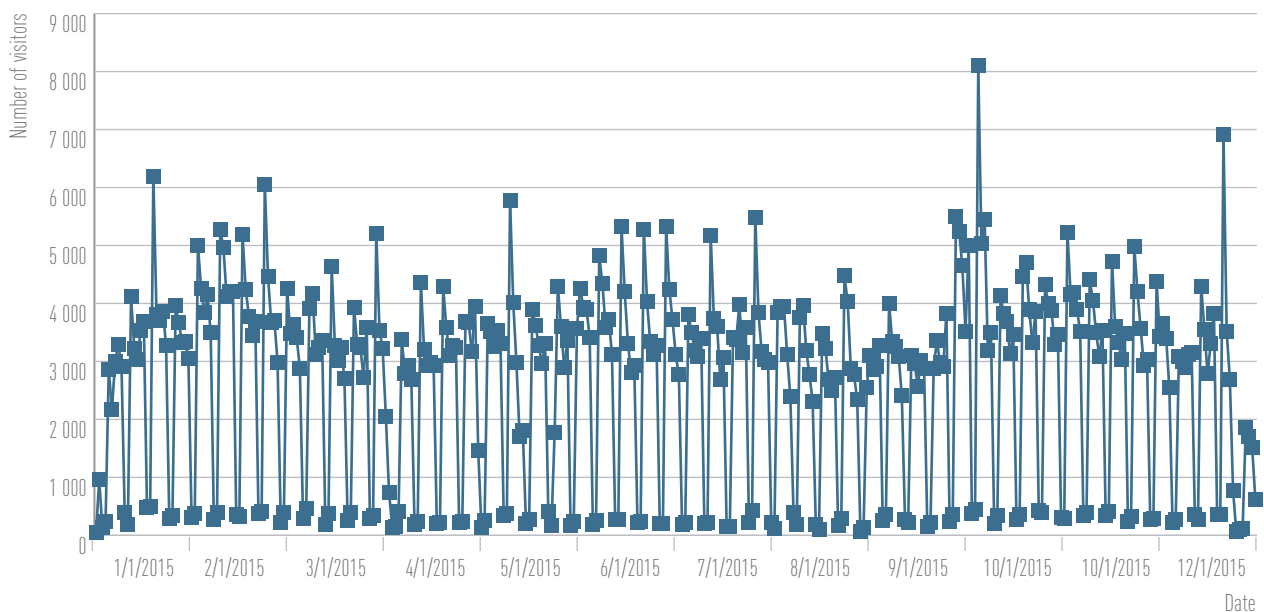
2015 was another busy year for the Q&A team. Out of approximately 850 questions we received, we noticed a slight shift in the topics that our stakeholders are focusing on. Although questions on supervisory reporting are still leading the tables by a substantial margin, there has been an increase of interest in the areas of credit risk and liquidity risk and a slow-down on own funds. And the impact of the BRRD on the tool has been noticeable too.

My colleagues in the Q&A team and I coordinate the handling of the questions and ensure that the answers are reflective of the exchanges and deliberations that take place as part of the due process set up by the EBA's BoS. Bringing together different views represents a truly European concerted effort. At times, this is far from straightforward, but the continuous challenge of overcoming such differences is one of the interesting aspects of our work.

The overall feedback from our stakeholders is positive. This is also reflected in the fact that the Q&A tool was the most visited section of the EBA website in 2015. One important factor here is the contribution to the EBA's Interactive Single Rulebook. By linking all final Q&As to the relevant articles or provisions of the underlying legislative text, i.e. the CRR, the CRD or the BRRD, stakeholders are able to consult in one place all relevant legislative rules - including delegated acts, technical standards and guidelines - and related guidance. It's rewarding to see how our efforts - those of Q&A team and everyone involved in the process at large - contribute to this unique and important regulatory tool.

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Figure 23: Web traffic to the Q&A section during 2015 with highlights of visiting peaks



Providing legal support to EBA regulatory products

Throughout 2015, legal assurance, analysis and quality control were provided on EBA regulatory products including technical standards, guidelines, recommendations, opinions and technical advice

In particular, legal support was provided during all phases of the development of regulatory products which included advice on mandates, as well as on procedures, drafting and consultation matters with regards to the development of EBA technical standards, guidelines and recommendations. The EBA also worked with the Commission, EIOPA and ESMA to establish working practices designed to ensure that technical standards can be endorsed and published by the Commission as swiftly as possible following their adoption by the BoS.

Questions were also addressed relating to the interpretation of the Treaty on European Union and the Treaty on the Functioning of the European Union, and the EBA contributed to discussions to clarify the EBA's legal position vis à vis the EU's institutions and bodies, especially the EU Commission.

Providing legal support to the EBA's internal operations

Throughout 2015, legal support was provided on operational issues for the Authority including matters related to the new seat of the Authority, human resources issues stemming from the Staff Regulations and the Conditions of Employment of other Servants, agreements with EBA suppliers, requests from EU bodies such as the European Court of Auditors and European Ombudsman.

In addition, in 2015, the EBA handled twenty four formal complaints received directly from individuals or legal persons of which most concerned a variety of consumer protection issues. In most of the cases the subject matter of the complaints did not fall into the scope of action of the EBA. In such cases the applicants were advised to file their complaints with the most suitable EU or NCA. Further evaluations were carried out on complaints that were

identified as potential breach of Union law case. In relation to the Board of Appeal ^[55], the EBA focused on an appeal against the EBA decision not to open an investigation under Article 17 of the EBA Regulation, which has been found inadmissible ^[56].

In relation to the General Court, the EBA focused (i) on a case where the applicant requested the annulment of an EBA decision and of the Board of Appeal decision in respect to his request for an investigation under Article 17 of the EBA Regulation ^[57] and (ii) on a dispute initiated by an applicant in a procurement case ^[58]. In the first case, the request of the applicant has been dismissed. The proceeding in the second case could be decided during 2016.

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 on processed operations. In 2015, 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 participate in the meetings of the EU data protection network.

^[55] The EBA advises on any issues which could potentially give rise to litigation, providing legal advice, managing cases of litigation at both administrative and judicial level and representing the EBA in legal disputes before the ESA's Joint Board of Appeal, the Court of Justice, the General Court and the Civil Service Tribunal.

^[56] Decision Ref. EBA/2015/D/2015 of 19 August 2015.

^[57] Case T-660/14 — SV Capital OÜ v European Banking Authority — judgement of the General Court (Third Chamber).

^[58] Case T-229/15 — European Dynamics Luxembourg v European Banking Authority.

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

The current EBA IT strategy (2015 to 2017) aims to provide the EBA and, whenever appropriate, other CAs and bodies with high-quality and innovative IT services and solutions. This strategy is divided into four areas which aim to standardise and optimise the delivery of IT solutions.

In 2015, the IT focus has been on maintaining and supporting production systems for data collection and implementing a number of projects in line with the IT work program.

To enhance and support the implementation of the Single Rulebook, the EBA has implemented two releases of the European Supervisory Platform (ESP) to extend the regulatory framework in financial and common reporting to COREP 2.1.0 and FINREP 2.1.3. Additionally, the project of notifications and sanctions was implemented to provide CAs with a secure platform to deliver notifications and sanctions to the EBA.

In line with security requirements, an infrastructure was put in place to support a single access for users, whose number has increased throughout the year, resulting in an overall 400 % increase.

The EBA further promoted the use of the Colleges platform, to assure a higher mobility and independence of sharing of information and communication between supervisory colleges. The Colleges platform and the considerable growth of its user community (by 300 %) has helped enhance cooperation and coordination between colleges of supervisors, which has in turn strengthened the supervision of cross-border banking groups.

Communicating and promoting the EBA's work

Over the course of the year, the EBA started implementing tasks related to its new communications strategy which was adopted by the EBA Management Board in March 2015. This resulted in regular communications activities and publications being reorganised on a thematic basis.

Furthermore, the EBA's press and communication activities continued to focus on ensuring that all parties concerned by the work of the Authority's BoS were correctly and timely informed of any points of interest or concern. As recommended in the communications strategy, there was an increase in the number of regular background briefings and interviews with members of the media throughout the EU. With 172 news items and press releases published in 2015, the EBA was in line in terms of reach-out activities compared to the previous year (175 in 2014 and 157 in 2013) and has more than doubled figures of previous years (73 in 2012). This surge reflects the increase in mandates and tasks for the EBA, as well as the proactive approach that the Authority is taking to communications. Social media platforms such as Twitter, YouTube and LinkedIn were used to promote specific news on an ad hoc basis. By the end of the year, the Authority's Twitter account had attracted more than 2,000 followers, whereas the LinkedIn community following the EBA was averaging 6,159.

In line with its strategy and to enhance its reach out to and engagement with EU Member States as well as with the press, the team started the production of quarterly newsletters to the National Press Officers of central EU banks and to media. In addition, during the second half of the year, communication activities focused intensely on the definition and organisation of the conference to mark the 5th year anniversary of the EBA which was held in London in February 2016.

Throughout 2015, parts of the EBA public website were updated and reorganised to streamline information and help users navigate the site. These included the redesigning of the 'focus on' area on the home page with the implementation of a dynamic slideshow to highlight recently published products. The 'About us' section was also updated with an interactive organigram of the internal structure of the EBA which included a summary of the tasks carried out by the various Departments and Units of the EBA. In addition, a new section was created under the 'news and press' section to host the EBA's Press Newsletter^[59].

^[59] EBA Press Newsletters, <https://www.eba.europa.eu/news-press/press-newsletter>

Internal management

Management Board

The Management Board is mandated by the EBA founding Regulation to 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 BoS elected by and from the voting members of the BoS. The Executive Director and a representative of the Commission also participate in its meetings.

The BoS elected two new members of the Management Board in December 2015 and re-elected a third member for a second term. The new two members represent both participating and non-participating SSM Member States. The Management Board in 2015 was composed of four members from participating SSM Member States (Germany, Italy, Netherlands and Spain) and two members from non-participating SSM Member States (Poland and the United Kingdom). The EBA founding Regulation requires that the representation of the Management Board be balanced and proportionate and that it reflects the Union as a whole.

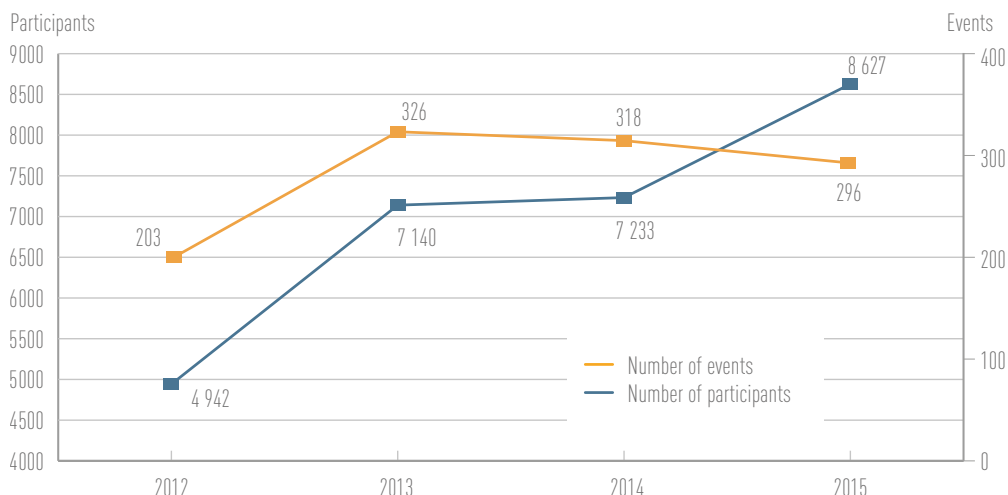
In 2015, the Management Board met five times at the EBA premises in London. It took important organisational decisions and held strategic discussions which paved the way for BoS' decisions. The minutes of the meetings held by the Management Board are public and can be consulted on the EBA website.

Chairperson's duties

The Chairperson is responsible for preparing the work of the BoS. He chairs both the BoS and the Management Board. The BoS met seven times in 2015 and the Management Board met five times – details of these meetings can be found on the EBA's website: <https://www.eba.europa.eu/about-us/organisation/board-of-supervisors> and <https://www.eba.europa.eu/about-us/organisation/management-board>.

In addition, the Chairperson represents the EBA: the Chairperson's Foreword sets out the key issues in which the Chairperson has been involved in the course of 2015 while information on the Chairperson's meetings with external stakeholders is also available on the EBA website at <https://www.eba.europa.eu/about-us/organisation/top-management>.

Figure 24: Number of events held by the EBA from 2012-2015



Major developments

Changes to the EBA's organisational structure

In 2015, there were a few changes to the internal organisational structure of the EBA. In particular, as a result of new tasks mandated to the EBA by Directive 2014/59/EU (the BRRD), as well as the need to separate supervisory and resolution tasks, a new and independent Resolution Unit was established as of 1 February 2015. As a consequence, all the resolution-related functions falling under the Regulation and Oversight Department were transferred onto this new Unit and the old 'Recovery, Resolution and Registration Unit' within the Regulation Department was dismantled. In addition, the 'Home-Host Coordination Unit' within the Oversight Department was renamed to the 'Supervisory Convergence Unit' and its functions refocused on supervisory convergence.

Finally, in March 2015, the Consumer Protection and Financial Unit was also renamed to Consumer Protection, Financial Innovation and Payments Unit in order to reflect the increasing number of mandates on payments that the EBA started receiving, namely with the entry into force of the PSD2.

New headquarters

At the end of 2014, the EBA successfully relocated to its new offices at 1 Canada Square, Canary Wharf, London. The relocation did not cause any service disruption and the move allowed the Authority to meet the technical and organisational requirements of the Agency for its activities.

The new premises have provided the Authority with services which were not available in the previous building, such as adequate meeting facilities to ensure the wellbeing of over 8,500 guests visiting the EBA on an annual basis and new security arrangements, which enhance control access to the premises.

In 2015, there were slightly fewer events being held by the EBA compared to previous years, however the volume of participants increased significantly. The Authority expects an increase in the number of events for 2016 based on the number of trainings being planned.

The move also served as an opportunity for implementing an open-space policy within the Authority.



Budgetary and financial management

In 2015, the EBA repeated the almost full budget execution of the previous year, committing 99.3 % of the available funds, while reducing the level of carry forward to 9.7 %. This was achieved in difficult budgetary circumstances. Despite allocating the EBA higher staffing levels, the budgetary authority reduced the EBA's 2015 financial resources by approximately EUR 2 million (6 %) compared to the previous year. In order to implement these cuts, the EBA had to reduce its work programme and cut costs in areas such as operational missions and meetings, operational IT projects and staff training. In addition, the euro lost significant value against the pound sterling over the course of the year, forcing the EBA to request an amending budget of EUR 1.9 million in order to enable it to meet its financial obligations. The amending budget was adopted in August 2015.

The 2016 budget has been significantly improved, resulting in a total budget of EUR 38 million. This represents a 20 % increase on the initial 2015 budget and results from both the EBA and the budgetary authority taking on board the lessons learned from the previous year's process. It also reflects an improved budgetary planning on the part of the EBA, which has been further enhanced in developing the 2017 preliminary draft budget. This included for the first time a budget by activity, based on work carried out by the EBA on activity-based budgeting over the past couple of years, Figure 25 ⁽⁶⁰⁾ presents the budget outturn for 2015.

⁽⁶⁰⁾ Figure 25, p. 101

Human resources management

During the course of 2015, the EBA organised 40 selection procedures, received 951 applications and interviewed 120 candidates. The total number of staff in 2015 went up to 156 including 118 temporary agents, 29 contract agents and 13 seconded national experts of broad geographical (26 EU nationalities) and gender balance (45 % females; 55 % males). For the first time since its establishment, the EBA's establishment plan was 1.7 % below its planned target of 120 temporary agent posts.

The total staff turnover due to resignation, non-renewal and contract expiry was 10.3 %. This was 2.6 % lower than in 2014 (12.9 %).

Out of the 117 applications for traineeship received, the EBA selected and provided traineeship opportunities to six trainees who were placed in Units across the EBA in 2015.

As in the previous year, the EBA conducted a job screening exercise covering the period of 2015 within the overall benchmarking exercise of EU agencies. In particular, the benchmarking exercise showed that 80.1 % of the jobs were 'operational' (directly focused on the implementation of the EBA's mandate), 12.5 % included 'admin-

istration and coordination' jobs, and 7.4 % were 'neutral' jobs (financial management, accounting jobs). In addition, the results confirmed the trend of the previous year when for each four posts focusing on the direct implementation of the EBA's mandate there was only one administrative post. The EBA also adopted a number of implementing rules to the Staff Regulations and internal policies in 2015.

Assessment of audit results during the reporting year

Internal Audit Service (IAS)

The EBA is audited by its internal auditor, the Internal Audit Service (IAS) of the Commission. The audit work to be performed is defined in the IAS Strategic Audit Plan. All observations and recommendations are taken into account and appropriate action plans are developed. The implementation of these actions is followed up regularly.

In 2015, the Commission's Internal Audit Service performed a follow-up limited review on IT project management and an Audit on human resources management.



Aneta Al Hafoudhova

PRINCIPAL HUMAN RESOURCES
OFFICER



The HR Team has been working on many fronts throughout 2015, but the novelty certainly was the implementation of the EBA Traineeship Programme. This meant that in 2015, the EBA welcomed its first six trainees and I believe that the assignment of these trainees to some of the core areas of the EBA's activities proved not only beneficial for the trainees themselves, as they had an opportunity to put in practice their academic skills, but also for the EBA at large, as these young talents brought their fresh views to the Authority. In its recruitment, the EBA maintained sound geographical and gender balance while attracting and recruiting the best possible candidates.

We also delivered a lot in terms of training, as we developed and implemented a systematic approach to training EBA staff, which resulted in 69 training courses organised in 2015. Training activities last year spanned large and covered development of technical and IT skills, as well as soft and management skills. By signing further agreements with nine new schools in London, I am confident that we brought a good contribution to supporting the EBA staff in the schooling of their children.



IAS follow-up on the 'Limited Review on IT Project Management in the EBA'

The objective of this follow-up audit was to assess the progress made in implementing the remaining three open recommendations (two rated as 'very important' and one 'important') that resulted from the IAS limited review on IT Project Management conducted in 2014. Of the four recommendations included in the original report, one (rated as important) had already been closed in February 2015 on the basis of an IAS desk review.

Audit on human resources management

The overall objective of the audit was to assess the adequacy of the design and the effectiveness of the internal control system put in place by the EBA for managing its human resources.

The final IAS report contained six recommendations, two of them very important and four important. There were no critical recommendations.

All observations and recommendations were accepted and appropriate action plans were developed by EBA. The implementation of the actions is being followed up regularly.

Status of limited review on the implementation of ICS

There were four open recommendations (one very important and three important) from the limited review on the implementation of ICS performed in 2013 that were awaiting review and reassessment in the context of the IAS in-depth Risk Assessment of EBA, which is planned to take place in late February 2016.

European Court of Auditors

The 2015 audit of the annual accounts was conducted partly by the European Court of Auditors and partly, for the second time, by an external audit firm. The external firm, Moore Stephens, was selected by reopening of competition between the eight contractors that are part of the Directorate-General for Budget (DG BUDG) framework contract BUDG/11/PO/03. Moore Stephens conducted the financial audit while the ECA focused on the legality and regularity aspects.

During 2015, no critical recommendations were issued or closed and on 1 January 2016 there was no open critical recommendation.

The ECA issued a statement of preliminary findings with two comments. The first related to a level of Title 2 carry-overs from 2015 to 2016 that was above the ECA guideline level of 20 %, where the ECA concluded that the carry-overs were justified. The second related to the EBA's management of IT costs, where the ECA criticised the accuracy of IT cost projections. In the view of the EBA this criticism does not adequately take into account the EBA's operational context.

Risk management

In order to ensure identification and assessment of potential risks that could negatively influence the achievement of its objectives, in 2014, the EBA adopted Risk Management Process Guidelines.

In 2015, the EBA conducted its risk assessment exercise to identify risks and types of exposures, and propose mitigation measures. The result was a risk register where risks were categorised according to their significance.

The highest risks for the Agency were considered to be the ones relating to IT security incidents, enforcing controls in areas of responsibilities, unanticipated consequences of the Single Rulebook and vulnerabilities in the EU banking sector. Mitigating actions were developed for all identified risks.

Follow up on observations from the discharge authority

On 11 April 2016, the discharge authority granted discharge to the EBA Executive Director in relation to the implementation of the Authority's budget for the financial year 2014. The adopted text of the 2014 discharge ⁽⁶¹⁾ included 32 paragraphs of observations, of which the majority were either notes (with satisfaction) or acknowledgements. For the paragraphs

⁽⁶¹⁾ Discharge 2014 EBA P8_TA-PROV(2016)0167, European Parliament, [https://polcms.secure.europarl.europa.eu/cmsdata/upload/e0751856-697c-4037-96d9-fa571dd4623e/P8_TA-PROV\(2016\)0167_EN.pdf](https://polcms.secure.europarl.europa.eu/cmsdata/upload/e0751856-697c-4037-96d9-fa571dd4623e/P8_TA-PROV(2016)0167_EN.pdf)

that could be considered to constitute a call to action on the part of the EBA, as the discharge report has only recently been adopted the EBA is still working to formulate its responses to the action points.

Assessment of the effectiveness of the internal control systems

The EBA has further developed and improved a series of internal measures to ensure that its activities are subject to control and to provide reasonable assurance to management of the achievement of the Authority's objectives.

More specifically, internal controls are all the measures that the management takes to ensure that:

- operational activities are effective and efficient;
- legal and regulatory requirements are met;
- financial and other management reporting is reliable;
- assets and information are safeguarded.

To assist the Executive Director in implementing internal controls, the Agency has adopted a set of internal control standards (ICS). These standards are intended to guarantee a consistent level of internal control of all business activities throughout the Agency, and define the management rules that all services must follow in their management of resources.

These standards are based on, and fully in line with, equivalent standards established by the Commission.

Tangible improvement was made in 2015 in the following areas of Internal Control Standards:

- ethical and organisational values;
- objectives and performance indicators;
- risk management process
- document management;
- information and communication.

Management assurance

The building blocks of management assurance at the EBA consist of several core elements. These are rooted in the implementation of the internal control standards and continued strong management oversight of both operational and horizontal activities, and adherence to principles such as sound financial management. The EBA is subject to regular audits by the internal audit service, the

European Court of Auditors, and audit firms, which all provide impartial and thorough reviews of these standards, and are a further element of management assurance. With this framework in place, the EBA is confident that there are no significant weaknesses that would create reservations or impact on the validity of the Declaration of Assurance from the EBA's Authorising Officer.

Annexes

Board of Supervisors' analysis and assessment

The EBA Board of Supervisors (BoS) takes note of the Annual Activity Report 2015, submitted by the Authorising Officer in accordance with Article 47(1) of the Financial Regulation applicable to the EBA.

Analysing and assessing the Annual Activity Report 2015, the BoS has made the following observations.

- The report contains a comprehensive account of the activities carried out by the EBA in the implementation of its mandate and Work Programme during 2015. The EBA has met its obligations under Article 47(1), providing a detailed account of the results achieved in relation to the objectives set in the Work Programme for 2015, financial and management information.
- The BoS acknowledges the challenges the EBA faces in terms of its constrained resources in the face of a demanding workload and welcomes the EBA efforts to manage this challenging situation.
- The BoS notes the EBA's response to findings from the European Court of Auditors and the Internal Audit Service.
- The BoS notes that the Executive Director has no reservations or critical issues to report which would affect the presentation of the annual accounts for the financial year 2015 to the discharge authority.

London, 15 June 2016

Andrea Enria

Chair of the Board of Supervisors

Declaration of assurance from the Authorising Officer

I, the undersigned, Adam Farkas, Executive Director of the European Banking Authority, in my capacity as Authorising officer,

Declare that the information contained in this report gives a true and fair view ⁽⁶²⁾.

State that I have reasonable assurance that the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principle of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.

This reasonable assurance is based on my own judgment and on the information at my disposal such as the results of the ex ante verifications and ex post controls performed during the year, or the reports of the Internal Audit Service and of the European Court of Auditors.

Confirm that I am not aware of anything not reported which could harm the interests of the European Banking Authority.

London, 15 June 2016

Adam Farkas,
Executive Director of the European Banking Authority

⁽⁶²⁾ True and fair view in this context means a reliable, complete and correct picture of the state of affairs.

Board of Supervisors – Members and observers

Chairperson: Andrea Enria

Alternate Chairperson: Pedro Duarte Neves (Portugal)

Austria	Helmut Ettl
Belgium	Mathias Dewatripont
Bulgaria	Dimitar Kostov
Croatia	Damir Odak
Cyprus	Argyro Procopiou
Czech Republic	David Rozumek
Denmark	Jesper Berg
Estonia	Andres Kurgold
Finland	Anneli Tuominen
France	Édouard Fernández-Bollo
Germany	Raimund Roeseler
Greece	Spyridoula Papagiannidou
Hungary	Kornél Kisgergely
Ireland	Cyril Roux
Italy	Luigi Federico Signorini
Latvia	Kristaps Zakulis
Lithuania	Vytautas Valvionis
Luxembourg	Christiane Campill
Malta	Marianne Scicluna
Netherlands	Jan Sijbrand
Poland	Andrzej Reich
Portugal	Pedro Duarte Neves
Romania	Nicolae Cinteza

Slovakia	Vladimír Dvořáček
Slovenia	Miha Kristl
Spain	Fernando Vargas Bahamonde
Sweden	Martin Noréus
UK	Andrew Bailey

OBSERVERS

Iceland	Jon Thor Sturluson
Liechtenstein	Heinz Konzett
Norway	Morten Baltzersen
SRB	Dominique Laboureix

NON-VOTING MEMBERS

ESMA	Verena Ross
EIOPA	Carlos Montalvo
European Central Bank/ Single Supervisory Mechanism (SSM)	Korbinian Ibel
European Commission	Olivier Guersent
ESRB	Francesco Mazzaferro

* Composition of members as at 31 December 2015

Management Board – Members

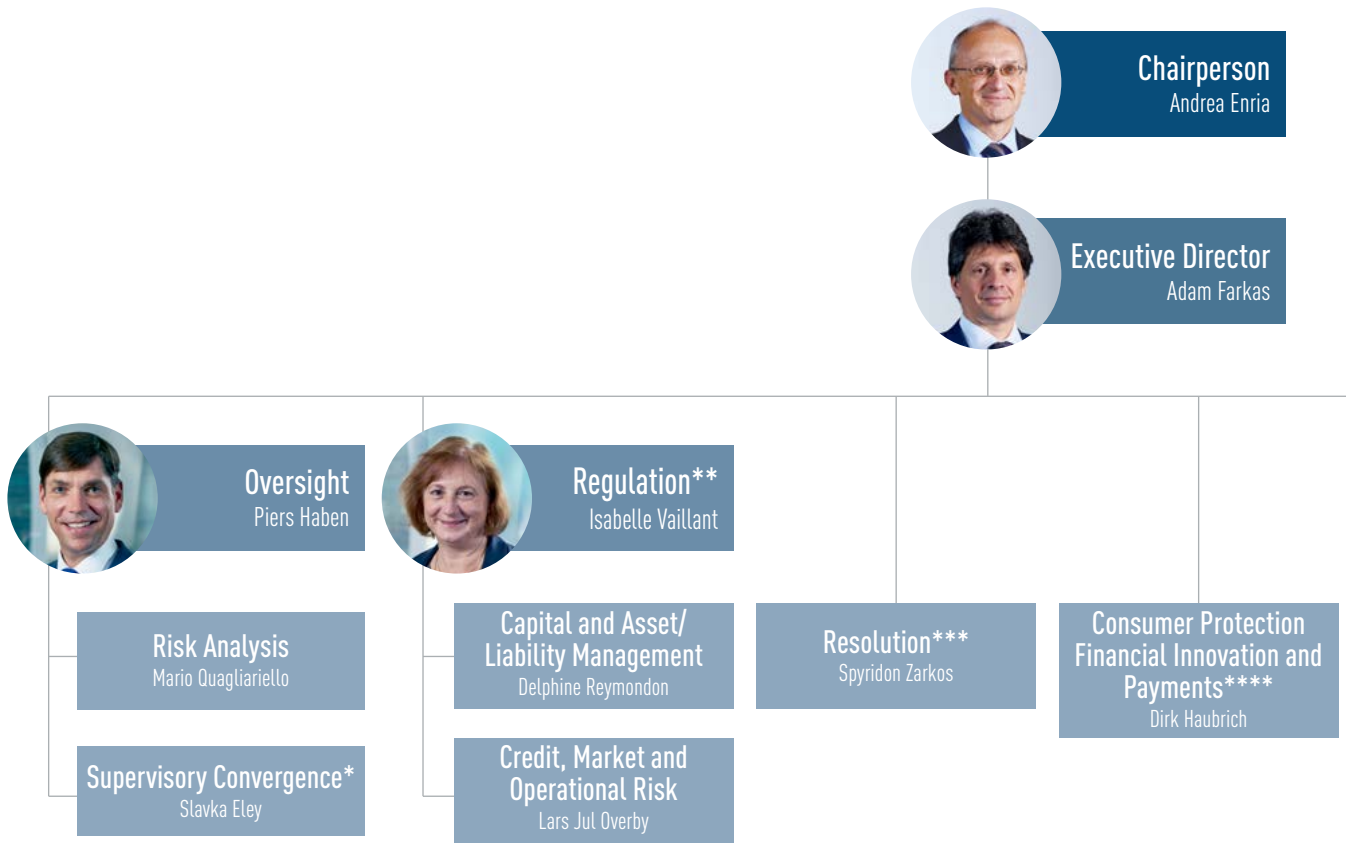
Chairperson: Andrea Enria

Alternate Chairperson: Pedro Duarte Neves (Portugal)

Germany	Raimund Roeseler
Netherlands	Jan Sijbrand
Italy	Luigi Federico Signorini
Poland	Andrzej Reich
Spain	Fernando Vargas Bahamonde
UK	Andrew Bailey

* Composition of members as at 31 December 2015

EBA organisational structure



*The Home-Host Coordination Unit was renamed to 'Supervisory Convergence' in February 2015 and it took over some of the tasks of the dissolved Registration, Recovery and Resolution Unit.

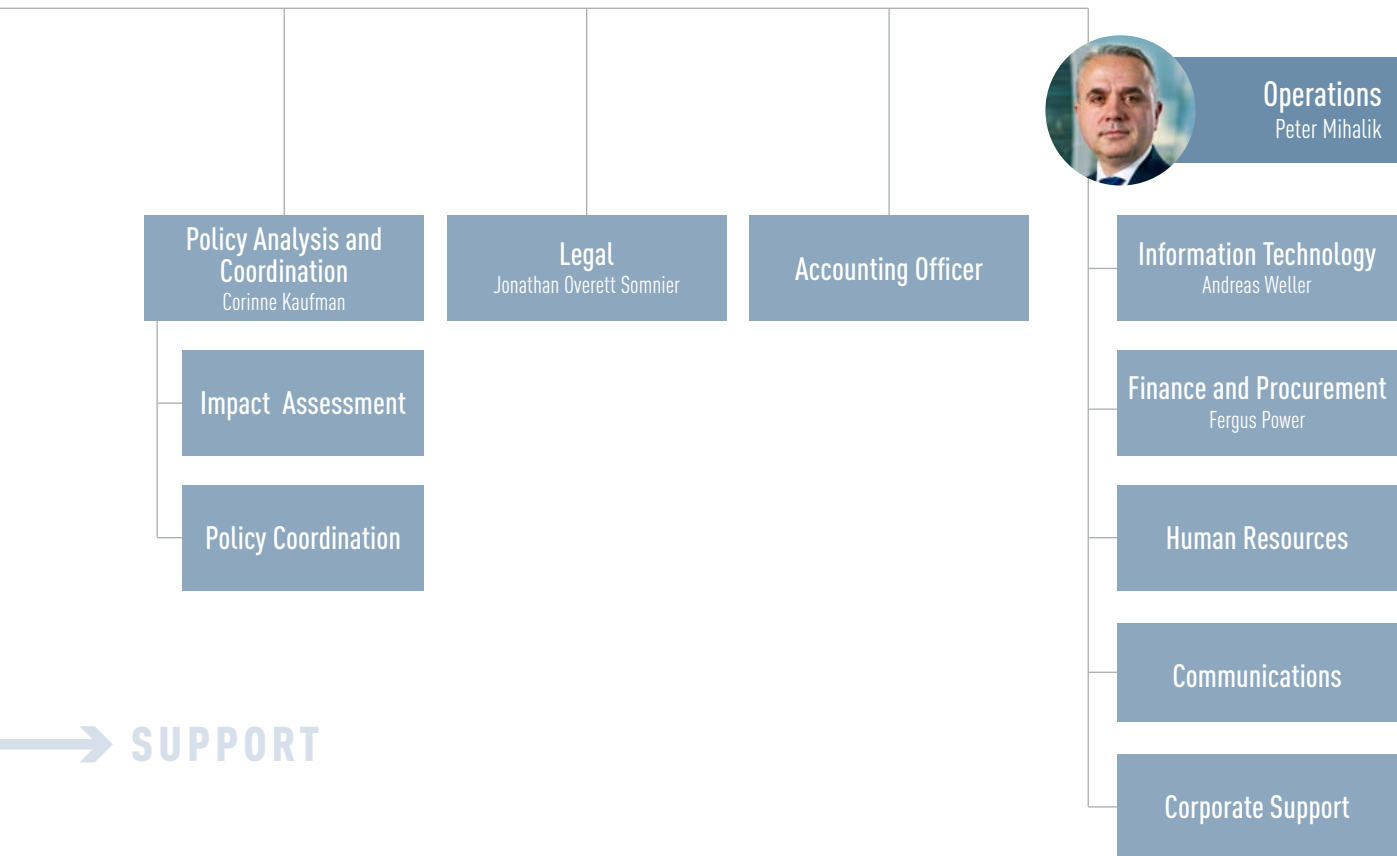
** The Registration, Recovery and Resolution Unit of Regulation was dissolved in February 2015.

*** The new Resolution Unit came into operation in March 2015 and took over most of the tasks of the dissolved Registration, Recovery and Resolution Unit.

**** The Consumer Protection and Financial Unit was renamed to Consumer Protection, Financial Innovation and Payments in March 2015.

*Composition as at 31 December 2015

CORE ←



Human and financial resources by activity

Job Type (sub) category	Year 2015 (%)	Year 2014 (%)
Administrative Support and Coordination	12.5 %	12.8 %
Administrative Support	8.8 %	9 %
Coordination	3.7 %	3.8 %
Operational	80.1 %	79.6 %
Top Level Operational Coordination	2.1 %	2.2 %
Programme Management & Implementation	48.9 %	47.3 %
Evaluation & Impact Assessment	2.1 %	2.2 %
General Operational	26.9 %	28 %
Neutral	7.4 %	7.6 %
Finance/Control	7.4 %	7.6 %
Linguistics	n/a	n/a

Financial report

The EBA's financial performance in 2015

The annual accounts of the EBA have been established in accordance with the EBA's financial regulation adopted by the EBA's Management Board, as well as with the framework financial regulation (Commission Delegated Regulation (EU) No 1271/2013 of 30 September 2013 on the framework financial regulation for the bodies referred to in Article 208 of Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council).

The accounting rules, methods and guidelines are those adopted and provided by the accounting officer of the European Commission.

Budget result

The budgetary accounts below give a detailed picture of the implementation of the budget in 2015 and 2014. They are based on the modified cash accounting principle. In 2015 the EBA used only non-differentiated appropriations. The total consumption of commitment appropriations reached EUR 33, 204, 952, of which EUR 29, 985, 170 has been paid and EUR 3, 219, 782 was carried over as per Article 14 of the EBA's financial regulation.

Figure 25: Budget result

(EUR)

		2015	2014
REVENUE			
Balancing Commission contribution	+	11,924,600	12,999,920
Surplus Year N-2		3,608,718	1,100,062
Contributions from National Supervisory Authorities	+	17,392,368	18,960,232
Contributions from Observers		527,218	506,235
Bank interests	+	13,676	20,512
Other income	+	100,296	22,915
TOTAL REVENUE (a)		33,566,876	33,609,876
EXPENDITURE			
Title I: Staff			
Payments	-	22,571,851	19,160,331
Appropriations carried over	-	116,921	158,449
Title II: Administrative Expenses			
Payments	-	3,782,803	3,706,902
Appropriations carried over	-	1,487,794	3,431,070
Title III: Operating expenditure			
Payments	-	3,630,516	5,336,135
Appropriations carried over	-	1,615,067	1,742,564
TOTAL EXPENDITURE (b)		33,204,952	33,535,451
RESULT FOR THE FINANCIAL YEAR (a-b)		361,924	74,425
Cancellation of unused payment appropriations carried over from previous year	+	164,242	296,725
Exchange differences for the year (gain +/loss -)	+/-	(144,927)	(86,896)
BALANCE OF THE RESULT ACCOUNT FOR THE FINANCIAL YEAR		381,239	284,253

Budgetary execution in 2015

The table below shows the status of commitments and payments as of 31 December 2015, together with the amounts carried over to the 2016 financial year.

At the end of 2015 the EBA had an overall budget execution rate in 2015 of 99.3% for commitments and 90.3% for payments. This is a result of continuous improvements in budget planning and monitoring while also reflecting the on-going under-resourcing of the agency.

Figure 26: Budgetary execution

(EUR)

Title	Final appropriations A	Committed B	% C = B / A	Paid D	% E = D / B	Carried forward F	% G = F / B
I: Staff-related	22,854,547	22,681,862	99.2%	22,564,940	99.5%	116,921	0.5%
II: Administrative	5,314,835	5,270,597	99.2%	3,782,803	71.8%	1,487,794	28.2%
III: Operational	5,249,618	5,245,583	99.9%	3,630,516	69.2%	1,615,067	30.8%
TOTAL	33,419,000	33,198,042	99.3%	29,978,259	90.3%	3,219,782	9.7%

Balance sheet

The balance sheet provides the financial position of the EBA as at 31 December 2015 and 31 December 2014.

Figure 27: Balance sheet (amounts in EUR)

ASSETS	31.12.2015	31.12.2014
NON-CURRENT ASSETS		
Intangible fixed assets		
Computer software	2,438,494	2,449,337
Tangible fixed assets		
Computer hardware	226,347	340,447
Furniture	493,067	552,547
Other fixture and fittings	8,364,719	9,267,001
Total	11,522,627	12,609,332
CURRENT ASSETS		
Current receivables	1,441,358	1,126,393
Sundry receivables	2,992	54,502
Prepaid expenses	663,765	141,003
Cash and cash equivalents	2,393,929	5,051,159
Total	4,502,044	6,373,056
TOTAL ASSETS	16,024,671	18,982,388
LIABILITIES		
NON-CURRENT LIABILITIES		
Provision for risks and charges	1,579,348	1,579,348
Deferred revenue	5,418,376	5,948,366
Total	6,997,724	7,527,714
CURRENT LIABILITIES		
Current payables	3,078,826	3,651,712
Sundry payables	-	795,298
EU entities	381,239	284,253
Deferred revenue	545,658	545,658
Total	4,005,723	5,276,921
TOTAL LIABILITIES	11,003,447	12,804,636
NET ASSETS		
Accumulated surplus/(deficit)	6,177,752	3,550,937
Economic outturn for the year - profit/(loss)	(1,156,528)	2,626,815
TOTAL NET ASSETS	5,021,224	6,177,752

Statements of financial performance

The financial statements below show all income and charges for the financial year based on accrual accounting rules complying with the European Commission's accounting rules.

Figure 28: Statements of financial performance

(EUR)

	2015	2014
OPERATING REVENUE		
Contribution from the Member States	17,392,368	18,960,232
Contribution from EFTA countries	493,804	539,649
EU Subsidy	15,152,079	13,815,729
Foreign currency conversion gains	685,939	358,630
Other administrative revenue	180,075	26,169
TOTAL OPERATING REVENUE	33,904,265	33,700,409
OPERATING EXPENSES		
Staff expenses	20,275,949	15,173,827
Building and related expenses	3,360,161	2,755,848
Other expenses	8,692,396	10,532,157
Depreciation and amortization	1,953,528	2,025,564
Foreign currency conversion losses	830,866	445,526
TOTAL OPERATING EXPENSES	35,112,900	30,932,922
SURPLUS (DEFICIT) FROM OPERATING ACTIVITIES	(1,208,635)	2,767,487
NON OPERATING REVENUES (EXPENSES)		
Financial revenue	14,103	22,037
Financial expenses	38,004	(162,709)
SURPLUS/ (DEFICIT) FROM NON OPERATING ACTIVITIES	52,107	(140,672)
SURPLUS/ (DEFICIT) FROM ORDINARY ACTIVITIES	(1,156,528)	2,626,815
SURPLUS/ (DEFICIT) FROM EXTRAORDINARY ITEMS	-	-
ECONOMIC RESULT FOR THE YEAR	(1,156,528)	2,626,815

Cash flow statements

Figure 29: Cash flow statements

(EUR)

	2015	2014
CASH FLOW FROM ORDINARY ACTIVITIES		
Surplus /(deficit) from ordinary activities	(1,156,528)	2,626,815
OPERATING ACTIVITIES		
Depreciation of Tangible fixed assets	1,962,565	1,930,094
Increase/(decrease) in provisions for risks and liabilities	-	(1,692,631)
(Increase)/decrease in short term receivables	(786,218)	833,360
Increase/ (decrease) in accounts payable	(1,368,184)	2,255,603
Increase/ (decrease) in liabilities related to consolidated EU Entities	96,986	(3,347,100)
Increase/(decrease) in deferred income	(529,990)	-
Net cash flow from operating activities	(1,781,369)	2,606,141
CASH FLOW FROM INVESTING ACTIVITIES		
(Increase)/decrease in tangible and intangible fixed assets	(875,861)	(3,646,322)
Net cash flow from investing activities	(875,861)	(3,646,322)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,657,230)	(1,040,181)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	5,051,159	6,091,340
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	2,393,929	5,051,159

Statement of changes in net assets

Figure 30: Statement of changes in net assets

	Accumulated Surplus	Net surplus/(deficit) for the period	Total Net Assets
Balance as of 31 December 2014	6,177,752		6,177,752
Economic result of the year		(1,156,528)	(1,156,528)
Balance as of 31 December 2015	6,177,752	(1,156,528)	5,021,224

Statistics of financial management

Figure 31: Transaction statistics

	Volume	Value	Average value
Commitments	465	33,198,042	71,394
Payments	1,556	29,978,259	19,266
Recovery orders	139	34,344,214	247,080

Recovery orders include non-budgetary recoveries such as value-added tax (VAT) refund claims.

Late payment interest

The EBA incurred no late payment interest in 2015.

Regulatory compliance of guidelines and recommendations

According to the EBA Regulation (Article 16(4)), this section comments on Competent Authorities that have not complied with guidelines and recommendations issued by the EBA.

In 2015, the EBA issued new Guidelines and Recommendation compliance forms. This report therefore comments only on those Guidelines and Recommendations where the response was one of the following:

- No — On a case-by-case basis in accordance with internal procedures, reasons for non-compliance and supplemented as necessary in an annex;
- No — Where the Competent Authority does not comply with part of the Guidelines, the extent of non-compliance will be noted;
- No Response — No notification of compliance was received by the EBA within the two-month time limit;
- Not Applicable — The Guidelines and Recommendations do not apply in the jurisdiction of the competent authority.

Figure 32: Regulatory compliance of guidelines and recommendations by Competent Authorities

EBA/REC/2015/01 – Recommendations on Equivalence of Confidentiality Regimes — Compliance Notification: Deadline – 25 August 2015

The following Competent Authority failed to provide a notification of compliance within the two-month time limit:

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

The following Competent Authority notified that Recommendation EBA/REC/2015/01 was not applicable:

- a) UK – Financial Services Commission (Gibraltar) - These Guidelines do not apply to the jurisdiction of the Competent Authority.

Recommendations delivered in 2015 — Compliance Notification: Deadline – pending

The two month notification deadline for confirming compliance, intention to comply, or stating the reasons for not complying or intention to comply with the following Guidelines, are not yet due, as their publication in all EU official languages is not yet complete.

- a) EBA/REC/2015/02 – Recommendations amending Recommendations on Equivalence of Confidentiality Regim

EBA/GL/2015/02 - Guidelines on Recovery Plan Indicators — Compliance Notification: Deadline - 23 September 2015

The following Competent Authorities failed to provide a notification of compliance within the two-month time limit:

- a) Bulgaria – Българска народна банка (Bulgarian National Bank);
- b) Denmark - Finanstilsynet (Danish Financial Supervisory Authority);
- c) Romania – Banca Națională a României (National Bank of Romania).

The following Competent Authority notified that Guideline EBA/GL/2015/02 was not applicable:

- a) Norway - Finanstilsynet (Norwegian Financial Supervisory Authority) - "The Guidelines do not apply in the jurisdiction of the Competent Authority. Awaiting a final agreement on the implementation of the ESAs' regulations into the EEA agreement, the BRRD has not yet been incorporated into the EEA agreement, nor has a resolution authority in Norway yet been appointed. As soon as the relevant domestic legislation has been adopted and necessary decisions taken, the stance of the Norwegian resolution authority as regards compliance with this and other guidelines, will be communicated".

EBA/GL/2015/03 - Guidelines on Triggers for use of Early Intervention Measures — Compliance Notification: Deadline – 29 September 2015

The following Competent Authority notified that Guideline EBA/GL/2015/02 was not applicable:

- a) Norway - Finanstilsynet (Norwegian Financial Supervisory Authority - "The Guidelines do not apply in the jurisdiction of the Competent Authority. Awaiting a final agreement on the implementation of the ESAs' regulations into the EEA agreement, the BRRD has not yet been incorporated into the EEA agreement, nor has a resolution authority in Norway yet been appointed. As soon as the relevant domestic legislation has been adopted and necessary decisions taken, the stance of the Norwegian resolution authority as regards compliance with this and other guidelines, will be communicated"

EBA/GL/2015/04 - Guidelines on the sale of Business Tool — Compliance Notification: Deadline – 7 October 2015

The following Competent Authorities failed to provide a notification of compliance within the two-month time limit:

- a) ECB

The following Competent Authorities notified that Guideline EBA/GL/2015/04 was not applicable:

- a) Spain - Banco de España (Bank of Spain) Spain opted to establish a structure with two resolution authorities, making the distinction between the roles of preventive and executive procedure (respectively assigned to Banco de España and FROB-Fund for Orderly Bank Restructuring-). EBA/GL/2015/04 does not fall under Banco de España scope of competences. Therefore, Banco de España will not provide compliance notification regarding this Guideline;
- b) UK – Prudential Regulation Authority (PRA) – These Guidelines do not apply in the jurisdiction of the Competent Authority. These Guidelines apply to the Resolution Authority;
- c) UK – Financial Conduct Authority – FCA – These Guidelines do not apply in the jurisdiction of the Competent Authority. These Guidelines are addressed to resolution authorities, whereas the FCA is a Competent Authority for BRRD purposes in the UK;
- d) Norway - Finanstilsynet (Norwegian Financial Supervisory Authority - The Guidelines do not apply in the jurisdiction of the Competent Authority. Awaiting a final agreement on the implementation of the ESAs' regulations into the EEA agreement, the BRRD has not yet been incorporated into the EEA agreement, nor has a resolution authority in Norway yet been appointed. As soon as the relevant domestic legislation has been adopted and necessary decisions taken, the stance of the Norwegian resolution authority as regards compliance with this and other guidelines, will be communicated.

The following Competent Authority did not submit any notification forms for Guideline EBA/GL/2015/04, but provided the following comments:

- a) Sweden - Finansinspektionen (Swedish Financial Supervisory Authority - thus advised: Sweden has not yet transposed the Bank Recovery and Resolution Directive into domestic legislation and for this reason, a resolution authority has not yet been formally designated (although the Government has announced its intention to designate the Swedish National Debt Office (SNDO) as resolution authority (please refer to the letter from our Minister for Financial Markets Per Bolund to Mr Andrea Enria of 28 April, 2015)).

Neither the SNDO nor Finansinspektionen, therefore, is in a position to declare whether the forthcoming Swedish resolution authority will comply with the guidelines in question or not. As soon as the relevant domestic legislation has been adopted and necessary decisions taken by the decision making body of the resolution authority, we will inform the EBA of the stance of the Swedish resolution authority as regards compliance with these guidelines.

EBA/GL/2015/07 - Guidelines on failing or likely to fail — Compliance Notification: Deadline – 6 October 2015

The following Competent Authority notified that Guideline EBA/GL/2015/07 was not applicable:

- a) Norway - Finanstilsynet (Norwegian Financial Supervisory Authority - The Guidelines do not apply in the jurisdiction of the Competent Authority. Awaiting a final agreement on the implementation of the ESAs' regulations into the EEA agreement, the BRRD has not yet been incorporated into the EEA agreement, nor has a resolution authority in Norway yet been appointed. As soon as the relevant domestic legislation has been adopted and necessary decisions taken, the stance of the Norwegian resolution authority as regards compliance with this and other guidelines, will be communicated.

EBA/GL/2015/08 - Guidelines on the management of interest rate risk — Compliance Notification: Deadline - 7 December 2015

The following Competent Authorities failed to provide a notification of compliance within the two-month time limit:

- a) UK – Prudential Regulation Authority (PRA);
- b) UK – Financial Conduct Authority (FCA)

EBA/GL/2015/09 - Guidelines on DGS payment commitments — Compliance Notification: Deadline – 11 November 2015

The following Competent Authorities failed to provide a notification of compliance within the two-month time limit:

- a) Estonia - Finantsinspektsioon (Financial Supervision Authority);
- b) Austria - Finanzmarktaufsicht (Financial Market Authority);
- c) UK – Financial Conduct Authority (FCA)

The following Competent Authority notified that Guideline EBA/GL/2015/09 was not applicable:

- a) Norway - Finanstilsynet (Norwegian Financial Supervisory Authority - The Guidelines do not apply in the jurisdiction of the CA. Awaiting a final agreement on the implementation of the ESAs' regulations into the EEA agreement, the DGS-directive has not yet been incorporated into the EEA agreement. As soon as the DGS-directive is made part of the Norwegian legal order, we will return to you confirming how Norway complies with the Guideline.

The following Competent Authorities returned a No response for Guideline EBA/GL/2015/09:

- a) Bulgaria - Българска народна банка (Bulgarian National Bank) - Does not apply in Bulgaria. The national legal framework and notably the Law on Bank Deposit Guarantee do not provide the Bulgarian Deposit Guarantee Fund (BDIF) with any power to accept payment commitments within the available financial means to be taken into account in order to reach the target level.
- b) France - Autorité de Contrôle Prudential et de Résolution (Prudential Supervisory & Resolution Authority) - Does not intend to fully comply with the Guidelines due to a contradiction with applicable French law: Part 3 of the guidelines related to the Financial Collateral Arrangement provides: "13. In order to safeguard the DGS's creditor position, a Financial Collateral Arrangement should explicitly include the following terms (delete point d) (iv) and add point 4) d) The least the following enforcement events: (i) failure by the credit institution to pay the payment commitment amount within the period provided under the payment commitment arrangement when required to do so by the DGS; (ii) failure by the credit institution to replace the low-risk assets provided to the DGS when they fall due, when they no longer comply with the requirements laid down in Part 6 or Part 7 of these guidelines or in other specific cases agreed upon with the DGS; (iii) failure by the credit institution to top up its collateral when required to do so by the DGS, in the event of a breach of the coverage level, as laid down in Part 7 of these guidelines; (iv) withdrawal of the credit institution's authorisation; (v) if the credit institution is subject to reorganisation measures other than early intervention or crisis management measures, or is subject to winding-up proceedings.

Where an institution ceases to be a member of the DGS without meeting any of the above-mentioned enforcement events, the DGS should choose the course of action most suitable to preserve the availability of the committed funding. To that end the DGS may either: (1) enforce the commitment; (2) accept that the institution which no longer is a member of the DGS that terminates its membership remains bound by the commitment and enforce it, at the latest, when reaching the maturity of the commitment as provided in the payment commitment arrangement, unless the payment commitment arrangement is rolled over; or (3) accept that the commitment is transferred to another entity in the context of a merger or acquisition". In France, payment commitments for deposit guarantee are governed by Article 9 of a ministerial decree dated October 27 of 2015 relating to resources and functioning of the deposit guarantee and resolution fund. Item I. c. 1° of this article sets forth that the commitment terminates with the withdrawal of the credit institution's license not caused by a sanction. This situation, which is not provided for in the guidelines is consistent with the treatment of payment commitments relating to the contributions to the Single Resolution Fund as provided for in article 7.3 of the Council Implementing Regulation No (EU) 2015/81 of 19 December 2014, so there is no reason to think this is not consistent with European Union law. As a French authority we have to comply with the binding provisions of French law, in case it contradicts Guidelines.

EBA/GL/2015/10 - Guidelines on methods for calculating contributions to DGS — Compliance Notification: Deadline - 22 November 2015

The following Competent Authorities returned a No response for Guideline EBA/GL/2015/10:

- a) Latvia - Finanšu un Kapitāla tirgus Komisija (Financial and Capital Market Commission) - Does not comply and does not intend to comply with parts of the Guidelines. In accordance with Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes (Directive), Article 13: "2. DGSs may use their own risk-based methods for determining and calculating the risk-based contributions by their members. The calculation of contributions shall be proportional to the risk of members and shall take due account of the risk profiles of the various business models. Those methods may also take into account the asset side of the balance sheet and risk indicators, such as capital adequacy, asset quality and liquidity. Each method shall be approved by the Competent Authority in cooperation with designated authority. EBA shall be informed about the methods approved."

The Financial and Capital Market Commission (FCMC) in the role of DGS's manager has been using its own risk-based methods for determining and calculating the risk-based contributions by their members since 01.01.2010. These methods have been approved by the Board of the FCMC (in Latvia the FCMC shares competence of Competent Authority and designated authority). The last version of methods for calculating contributions to DGS is stipulated in the Regulations on covered deposits reporting and determination of adjustment coefficient (Regulations) adopted by the FCMC on 01.07.2015. According to Article 13(2) of Directive the notification was sent to the EBA on 03.09.2015 (our ref.: 01.03.07.02/2765).

Regulations state that the calculation of the aggregate risk weight for an individual member institution shall be based on a set of risk indicators from each of the following risk categories: a. Capital (weight 18 %), b. Liquidity (weight 18 %), c. Asset quality (weight 13 %), d. Large risk exposure (weight 13 %), e. Business model (weight 38 %). Risk categories a), b), c) and respective weights are the same as in the EBA guidelines on methods for calculating contributions to deposit guarantee schemes (Guidelines). We have been using risk category d) since 2010 and we don't see any reason for changing it to Guidelines' Potential losses to DGS'. Our opinion is that the bank's level of unencumbered assets/covered deposits does not reflect potential losses for DGS. One should take into account the probability of pay-out, calculation of which is a very problematic task.

As regards risk category e) we have weighted it by 38% for the following reasons. We are taking into account the specific feature of the Latvian banking system - large exposure to non-residents (both sides of the balance sheet). For instance, approximately 50% of Latvian banks' total deposits are non-resident deposits and some banks have more than 90% non-resident deposits. A substantial part of the assets of some banks has been invested in the CIS countries. We consider such 'non-resident' business model as the main risk to the Latvian banking system.

Notwithstanding that the above -mentioned risk is well managed, a possibility that a bank with 'non-resident' business model will not be resolved, but liquidated is greater than for a bank with mainly resident-services business model, because 'non-resident' business model banks have no or very limited important critical business functions. According to Article 18(1)(c), (5) of the Single Resolution Mechanism Regulation SRMR (SRMR Single Resolution Mechanism Regulation) and Article 14(2) of the SRMR it will be difficult to justify any resolution action as treated in the public interest if there are no critical business functions. As a result, in our opinion the probability of pay-out from DGS could be also associated with the specific business model of the Latvian banking system. This is why we distributed the remaining 25 % of total weights to 'business model' as the resulted indicator 'business model' has a 38 % weight.

Finland - Financial Stability Authority - The act on Finnish Financial Stability Authority was amended in early 2015 to incorporate rules on methods for calculating contributions to deposit guarantee schemes. The new rules are in line with the Guideline with one exception, namely to leave out the indicator Return on Assets from the calculation. This exception is due to the fact that all other indicators described in the EBA Guideline are linear, i.e. risks either increase or decrease in case of value of indicator changes.

This would require a decision based on the empirical evidence to evaluate what level of profitability is appropriate but not reflect too high risk appetite. In Finland, this data would be very difficult to estimate as no such cases have been recently faced. The lack of data could lead to an outcome where the most efficient banks could be treated as most risky cases despite no evidence of realisation risk exist.

The use of the above described methods for calculating contributions is subject to the decision of Finnish Financial Stability Authority

The following Competent Authority notified that Guideline EBA/GL/2015/10 was not applicable:

- a) Norway - Finanstilsynet (Norwegian Financial Supervisory Authority) - The Guidelines do not apply in the jurisdiction of the CA. Awaiting a final agreement on the implementation of the ESAs' regulations into the EEA agreement, the DGS-directive has not yet been incorporated into the EEA agreement. As soon as the DGS-directive is made part of the Norwegian legal order, we will return to you confirming how Norway complies with the Guideline.

The following Competent Authority failed to provide a notification of compliance within the two-month time limit:

- a) UK - Financial Conduct Authority (FCA)

The following CA did not submit any notification forms for Guideline EBA/GL/2015/10, but provided the following comments:

- a) Ireland - Central Bank of Ireland - provided this response: Following recent discussions at the SSM pertaining to Guidelines on methods for calculating contributions to Deposit Guarantee Schemes (DGSs) (EBA-GL-2015-10) the Central Bank of Ireland is postponing its response to same.

EBA/GL/2015/16 - Guidelines on the application of simplified obligations — Compliance Notification: Deadline – 16 December 2015

The following Competent Authorities notified that Guideline EBA/GL/2015/16 was not applicable:

- a) Bulgaria - Българска народна банка (Bulgarian National Bank) - The Guidelines do not apply to the jurisdiction of the Competent Authority. The Bulgarian National Bank does not intend to apply simplified obligations under Article 4 of the BRRD to any credit institution.
- b) Norway - Finanstilsynet (Norwegian Financial Supervisory Authority) - The Guidelines do not apply in the jurisdiction of the Competent Authority. Awaiting a final agreement on the implementation of the ESAs' regulations into the EEA agreement, the BRRD has not yet been incorporated into the EEA agreement, nor has a resolution authority in Norway yet been appointed.

EBA/GL/2015/17 - Guidelines on specifying the conditions for group financial support under Article 23 — Compliance Notification:
Deadline – 8 February 2016

The following Competent Authority failed to provide a notification of compliance within the two-month time limit:

- a) Bulgaria - Българска народна банка (Bulgarian National Bank);

Guidelines delivered in 2015 — Compliance Notification: Deadline- pending

- a) EBA/GL/2015/11 - Guidelines on Creditworthiness Assessment under the MCD;
 - b) EBA/GL/2015/12 - Guidelines on Arrears and Foreclosures under the MCD;
 - c) EBA/GL/2015/18 - Guidelines on Product Oversight and Governance;
 - d) EBA/GL/2015/19 - Guidelines on Passport Notifications for Credit Intermediaries under the MCD;
 - e) EBA/GL/2015/20 - Guidelines on limits on exposures to shadow banking entities;
 - f) EBA/GL/2015/21 - Guidelines on business reorganisation plans;
 - g) EBA/GL/2015/22 - Guidelines on sound remuneration policies.
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* Table reflects information notified to the EBA by 31 December 2015.

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 the Regulation (EC) No 1049/2001, the Legal Unit provided its advice on one formal request for access to information.

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