

# ANNUAL REPORT 2018



**EBA**

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# Abbreviations

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<b>ABCP</b>	asset-backed commercial paper	<b>CRR</b>	Capital Requirements Regulation
<b>AMA</b>	advanced measurement approach	<b>CSC</b>	common and secure communication
<b>AML</b>	anti-money laundering	<b>CTR</b>	consumer trends report
<b>AML/CFT</b>	anti-money laundering and countering the financing of terrorism	<b>CVA</b>	credit valuation adjustment
<b>AMLD3</b>	Third Anti-Money Laundering Directive	<b>DGS</b>	deposit guarantee scheme
<b>API</b>	application programming interface	<b>DGSD</b>	Deposit Guarantee Schemes Directive
<b>ASPSP</b>	account-servicing payment service provider	<b>DPM</b>	data point model
<b>AT1</b>	Additional Tier 1	<b>EBA</b>	European Banking Authority
<b>BCBS</b>	Basel Committee on Banking Supervision	<b>ECAI</b>	external credit assessment institution
<b>SA</b>	standardised approach	<b>ECB</b>	European Central Bank
<b>BIS</b>	Bank for International Settlements	<b>EEA</b>	European Economic Area
<b>BoS</b>	Board of Supervisors	<b>EFIF</b>	European Forum for Innovation Facilitators
<b>bps</b>	basis points	<b>eIDAS</b>	electronic identification, authentication and trust services
<b>BRRD</b>	Bank Recovery and Resolution Directive	<b>EIOPA</b>	European Insurance and Occupational Pensions Authority
<b>BSG</b>	Banking Stakeholder Group	<b>ESAs</b>	European Supervisory Authorities
<b>BUL</b>	breach of Union law	<b>ESG</b>	environmental, social and governance
<b>CA</b>	competent authority	<b>ESMA</b>	European Securities and Markets Authority
<b>CCP</b>	central counterparty	<b>ESP</b>	European Supervisory Platform
<b>CCR</b>	counterparty credit risk	<b>ESRB</b>	European Systemic Risk Board
<b>CDD</b>	customer due diligence	<b>EU</b>	European Union
<b>CEBS</b>	Committee of European Banking Supervisors	<b>EUCLID</b>	European Centralised Infrastructure for Supervisory Data
<b>CET1</b>	Common Equity Tier 1	<b>EUI</b>	European University Institute
<b>CMU</b>	Capital Markets Union	<b>FAQ</b>	frequently asked question
<b>COREP</b>	common reporting	<b>FBE</b>	forborne exposure
<b>CP</b>	consultation paper	<b>FIAU</b>	Maltese Financial Intelligence Analysis Unit
<b>CRD</b>	Capital Requirements Directive	<b>FINREP</b>	financial reporting
<b>CRM</b>	credit risk mitigation	<b>FinTech</b>	financial technology

<b>FRTB</b>	Fundamental Review of the Trading Book	<b>P&amp;L</b>	profit and loss
<b>FX</b>	foreign exchange	<b>P2G</b>	Pillar 2 capital guidance
<b>GL</b>	guidelines	<b>PRIIP</b>	packaged retail and insurance-based investment product
<b>HDP</b>	high default portfolio	<b>PSD1</b>	Payment Services Directive
<b>ICT</b>	information and communication technology	<b>PSD2</b>	revised Payment Services Directive
<b>IFD</b>	Interchange Fee Directive	<b>PSP</b>	payment service provider
<b>IFR</b>	Interchange Fee Regulation	<b>Q&amp;A</b>	question and answer
<b>IFRS</b>	International Financial Reporting Standards	<b>QIS</b>	quantitative impact study
<b>IMA</b>	internal model approach	<b>RAQ</b>	risk assessment questionnaire
<b>IRB</b>	internal ratings-based	<b>RAR</b>	risk assessment report
<b>IRRBB</b>	interest rate risk in the banking book	<b>REA</b>	risk exposure amount
<b>ISRB</b>	Interactive Single Rulebook	<b>RTS</b>	regulatory technical standards
<b>IT</b>	information technology	<b>RWA</b>	risk-weighted asset
<b>ITS</b>	implementing technical standards	<b>SA-CCR</b>	standardised approach for counterparty credit risk
<b>KID</b>	key information document	<b>SCA</b>	strong customer authentication
<b>LCR</b>	liquidity coverage ratio	<b>SCPS</b>	Standing Committee on Payment Services
<b>LDP</b>	low default portfolio	<b>SFT</b>	securities financing transaction
<b>LGD</b>	loss given default	<b>SMEs</b>	small and medium-sized enterprises
<b>MCD</b>	Mortgage Credit Directive	<b>SPS</b>	Staff Paper Series
<b>MDA</b>	maximum distributable amount	<b>SRB</b>	Single Resolution Board
<b>MFSA</b>	Malta Financial Services Authority	<b>SREP</b>	Supervisory Review and Evaluation Process
<b>MiFID</b>	Markets in Financial Instruments Directive	<b>SSM</b>	Single Supervisory Mechanism
<b>ML/TF</b>	money laundering/terrorist financing	<b>STS</b>	simple, transparent and standardised
<b>MoU</b>	memorandum of understanding	<b>SVB</b>	supervisory benchmarking
<b>MREL</b>	minimum requirement for own funds and eligible liabilities	<b>TEG</b>	Technical Expert Group on Sustainable Finance
<b>NGFS</b>	Network for Greening the Financial System	<b>TPP</b>	third party provider
<b>NPE</b>	non-performing exposure	<b>TS</b>	technical standards
<b>NPL</b>	non-performing loan	<b>UCITS</b>	Undertakings for Collective Investments in Transferable Securities
<b>OJ</b>	Official Journal of the European Union	<b>UK</b>	United Kingdom
<b>OTC</b>	over-the-counter		

## Foreword by the Interim Chairperson

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It is an honour for me to write the foreword to the 2018 EBA Annual Report in my capacity as Interim Chairperson of this Authority. While I took up this role only at the very beginning of 2019, I have been serving as Alternate Chairperson since July 2018 and it is my pleasure to express some thoughts on the great achievements of the Authority as well as on the great challenges it had to face.

Let me start with a big challenge, which ranked high in our 2018 priority list: Brexit. The UK's decision to withdraw from the EU and the political uncertainty surrounding it had definitely a big impact on the core and operational activities of the Authority. Throughout 2018, the EBA continued its work to ensure good preparedness at all levels for the consequences of the UK's withdrawal, taking into account all possible outcomes, including the worst-case scenario. More recently, most of our work has been focused on the post-Brexit phase and one of our key contributions was the guidance provided to supervisory and resolution authorities on how to continue exchanging information in a harmonised way and cooperating on all supervisory matters under a cliff-edge scenario.

Besides all the work developed to preserve financial stability, Brexit has consequences that are more direct for the EBA. In a sense, it has triggered a new chapter for the Authority with the consequent decision of relocating its seat from London to Paris. I am proud to have been involved in the final preparations leading to the signing of the new Headquarters' Agreement with the French Authorities. This move has taken and is still taking a huge toll on our resources to make sure that the relocation can be completed in the most effective and seamless way and that the EBA can be fully operational in its new seat as of 3 June 2019.

What impressed me throughout the relocation process was the great adaptability and flexibility of the whole EBA staff who embraced this big change with commitment, enthusiasm and professionalism. And when I talk about adaptability and flexibility I am not just referring to the change of seat, which is already a big change per se, especially after more than eight years in London. I am also referring to the new mandates for the Authority, namely in the context of the review of the European Supervisory Authorities (ESAs), which, for instance, will see the EBA entrusted with more responsibilities and powers in the area of anti-money laundering (AML) to ensure that it can effectively and consistently incorporate all the related risks into its supervisory strategies.

The Commission's Call for Advice on the impact and implementation of the revised Basel III framework aiming to finalise the post-crisis reforms and improving the balance between simplicity, comparability and risk sensitivity of capital requirements is another important task we



JO SWYNGEDOUW

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have been working on since 2018. The EBA is currently engaging in data analysis, policy discussions and exchanging views with industry stakeholders with a view to submitting the conclusions of its analysis to the Commission in September 2019. In particular, the EBA aims at formulating empirically-grounded recommendations on the implementation of important elements of the revised Basel III framework, namely on the role of historical losses in the calculation of regulatory capital for operational risk, the role of external credit ratings in the calculation of regulatory capital for credit risk, the treatment of exposures to small and medium-sized enterprises as well as the implementation of the aggregate output floor.

One of the leading principles in all the EBA's work is to ensure the EU will comply with the agreed revisions of the Basel III framework, while at the same time taking into account the specificities of the EU banking market. I believe a strict adherence to the global standards is an absolute necessity if a well-functioning cross-border banking market characterised by a global level playing field is to be achieved.

Other new priorities for the EBA include areas, such as financial innovation and sustainable finance, where we have developed ad-hoc work programmes in response to the respective action plans issued by the European Commission.

Last but not least, the EBA recently went through a changing of the guard in its highest position as Andrea Enria stepped down as EBA Chairperson at the end of 2018 to be replaced by José Manuel Campa, who will be soon taking the leadership. I want to seize the opportunity to thank again Andrea Enria for his dedication and vision, which have allowed the EBA to grow into a highly respected and, very professional Authority, and all the staff for the great work and commitment they put into it. I wish the new Chairperson, and the whole staff good luck for all the big changes ahead and the new chapter you will be soon starting in Paris.

## Interview with the Executive Director

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In December 2018, the EU legislators endorsed a package of measures aimed at reducing risks in the EU banking sector. What has been the role of the EBA in this process and what will be the key EBA mandates stemming from these legislative changes? How will this package support the completion of the Banking Union?

This package is indeed an important step forward in the regulatory repair in the EU banking sector and will contribute to the completion of the Banking Union as well, which will create the conditions to make European banks stronger, more stable and more resilient. It is important to underline that these measures are the result of long negotiations and deliver on three of the key objectives set out by the 2016 Council roadmap: 1) enhancing the framework for bank resolution, in particular the necessary level and quality of the subordination of liabilities (MREL) to ensure an effective and orderly “bail-in” process; 2) introducing the possibility for resolution authorities to suspend a bank’s payments and/or contractual obligations when it is under resolution – the so-called “moratorium tool”, so as to help stabilise the bank’s situation; 3) and strengthening bank capital requirements to reduce incentives for excessive risk taking, by including a binding leverage ratio, a binding net stable funding ratio and setting risk sensitive rules for trading in securities and derivatives.

The EBA played an important role throughout the negotiation phase by issuing several Opinions, which contributed to bringing transparency and evidence in support of the policy options on the table. We also made some specific prudential recommendations, such as an Opinion on the Fundamental Review of the Trading Book (FRTB) and on some other specific matters.

In terms of key mandates, we have more than 50 deliverables to be completed in less than two years, of which around a dozen to be finalised within six months and another 20 within 9-12 months. We are also expected to deliver around 30 reports to support the effective and consistent implementation of the Single Rulebook as well as its convergent supervision in practice.

In terms of sequence, the deliverables in the area of market risk will be our first priority, followed by regulatory standards and guidelines in the resolution area, which will need to address the interaction between capital and the operationalisation of various triggers in the context of TLAC and MREL. Another priority is governance and crosscutting attention will need to be paid to AML and ESG in this context.



ADAM FARKAS

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In addition, the Pillar 2 changes introduced in the legislative packages are extremely significant. Beyond the major game changer of the introduction in law of the Pillar 2 “requirements” versus “guidance” concepts, there has been a clarification of the allocation of objectives to buffers and authorities empowered to set such buffers. The key challenge here will be how to operationalise the Pillar 2 requirements and that is where the EBA will be asked to provide further guidance.

Finally, we will be working more on the reporting front to create a more effective and streamlined reporting system and we will be looking at enhanced proportionality, with a view to simplifying regulation and facilitating tools for smaller and less complex banks.

In 2018, the European Commission proposed to further strengthen the supervision of EU financial institutions to better address money laundering and terrorist financing threats and to concentrate additional AML powers related to the financial sector into the EBA. What were the key achievements of the EBA in this area and what are, in your view, the priorities to ensure that the current EU supervisory system fully and adequately covers the risks to stability associated with AML/CFT failings?

At the State of Union speech in September 2018, the Commission proposed to further strengthen the supervision of EU financial institutions to better address money-laundering and terrorist financing threats. And for that, they proposed to amend our Regulation in order to strengthen the EBA’s role and give it the necessary tools and resources to ensure effective cooperation and convergence of supervisory standards. After almost a year of negotiations, we are pleased to see that the Eu-

ropean Parliament and Member States recently reached an agreement on the core elements of the reform of the European supervision in the areas of EU financial markets including when it comes to anti-money laundering.

Despite the minimum harmonisation framework, in all the work we have done in this area, we have always aimed at promoting a common supervisory culture and a shared understanding of the rules competent authorities seek to enforce to ensure that financial institutions, with similar ML/TF risk exposures and profiles, are treated consistently wherever they operate in the Single Market. This is crucial to prevent regulatory arbitrage and to protect the integrity of the EU’s financial system since financial crime respects no borders.

In 2018, two technical standards and three guidelines came into force and, once implemented, they will be an important first step on the road towards a more consistent and effective European AML/CFT regime. We have also drawn up an AML/CFT strategy that sets out how we will review AML/CFT supervision in a number of other Member States. With the new AML directives and supporting guidelines and standards, we have taken one further step towards a more harmonised approach to AML/CFT supervision and strengthening the financial sector’s AML/CFT defences, and I believe we are on the right track.

In line with the recent agreement, I am confident that the EBA will be given the right powers and sufficient resources to take action where necessary to support the correct and consistent application of our standards and guidelines. In particular, it is important we can conduct independent reviews and issue recommendations, where needed.

There are some new important strategic policy areas for the EBA such as FinTech and sustainable finance. What are the EBA's priorities in these two areas and what has already been achieved?

The pace of technological change in the provision of financial services requires the EBA to revise its approach to monitoring of innovations. In 2019, we aim to establish an 'innovation radar' to identify and track a broad range of financial innovations, for example, the launch of new products or innovative uses of existing products and services. The EBA will leverage on feedback from three key stakeholders to develop a rounded innovation monitoring approach, which can then be used to inform industry and competent authorities of forthcoming trends and any risks or opportunities arising from them.

Just to mention a few of the key priorities going forward: 1) we will monitor the regulatory perimeter and map current authorising and licensing approaches for innovative FinTech business models and in particular, explore how proportionality and flexibility are applied by national authorities; 2) we are currently working on identifying and analysing the potential national barriers to FinTech firms when providing services across the EU border; 3) we are currently conducting work on Big Data and Advanced Analytics aiming to identify how this is currently used/can be used by institutions, analyse potential challenges and opportunities and list potential regulatory and supervisory challenges and/or areas of attention; and 4) we continue working on the delivery of its FinTech Roadmap, by analysing the impact on payment institutions' and e-money institutions' business models; 5) we will work towards a number of actions identified to strengthen monitoring practices

regarding the crypto-asset activities of banks, investment firms, payment institutions and electronic money institutions, and to assess consumer-facing disclosure practices.

In general, going forward, we intend to continue to engage in relevant international initiatives to promote supervisory and regulatory consistency in responding to new and borderless technologies.

On the second key topic, following on the European Commission's action plan for financing sustainable growth, released on 7 March 2018, the EBA developed its own work program to translate this Action Plan into specific projects that would directly affect several key areas of the EBA supervisory tasks and regulations.

Considering the wide scope of the topic and its interaction with the EU political agenda, we are of the view that the EBA's work on sustainable finance should follow a sequential approach. The idea would be to first focus on a market analysis and on the review of Pillar 3 and Pillar 2 frameworks, and second, we will aim at reviewing Pillar 1 regulation, possibly discussing the prudential treatment of green assets.

As a result, for 2019, we will be doing some technical preparatory work on market analysis, data collection, reporting and disclosures of ESG risks that will lay down the foundation to support the EBA's future policy analysis and risk assessments on sustainable finance and we will publish a report covering all these areas. In addition, together with ESMA and EIOPA, by the end of this year, we will deliver another report assessing undue short-term pressure from capital market on corporations. In a second stage, we will start reflecting on how to deliver the three specific legal man-

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dates recently included in the revised CRR and CRDIII frameworks in the area of SREP, disclosures and capital treatment. By 2021, we should also assess whether a dedicated prudential treatment of assets exposed to activities associated substantially with environmental and / or social objectives, would be justified from a prudential perspective.

Brexit remained one of the priorities of the EBA's work in 2018. The EBA has been particularly vocal on financial institutions' preparedness even for the worst possible outcome, i.e. a no-deal scenario. Could you please detail all the actions the EBA has taken in this respect as well as its plans to ensure good cooperation between public authorities once the UK becomes a third country?

Throughout 2018, the withdrawal of the UK from the EU remained high on the EBA's agenda and all our work on this issue aimed to ensure banks and the financial sector as a whole were speeding up their preparations and contingency planning for the UK withdrawal also seriously considering a no-deal Brexit, in the interest of preserving the stability of the wider economy. In particular, in addition to our 2017 Opinion, which focused on policy issues and the consistent application of EU legislation to businesses seeking to establish or enhance their EU27 presence, in June 2018, we issued a second Opinion calling on banks to establish and enact adequate contingency planning in view of a potential no deal scenario. At that time, our Opinion sounded rather alarming and in contrast with statements made by the UK authorities, but the political developments and ensuing uncertainty on the withdrawal agreement have actually proved the relevance and validity of our warning. Later in the year, we also followed up with the public statement calling on institutions to step up their commu-

nication to their customers and update them on the contingency measures being taken by the institutions and how those may affect them.

Together with the competent and resolution authorities we have also put significant effort into monitoring the institutions' progress in their contingency planning and relocation of business. I must say that in general, banks, at least the largest ones mostly affected by Brexit, have made and continue to make good progress in their preparations for the cliff edge scenario and, in the majority of cases, supervisors consider their contingency planning and preparations as reasonably adequate. The same can be said about major institutions relocating to the EU, where the incoming ones seem to have made good progress and most institutions have received their licenses by the withdrawal date. Of course, despite the good progress, we should not underestimate potential risks coming from the market volatility and turbulence, should the no deal scenario materialise, and its interaction with other known economic vulnerabilities.

Another major area of work for us in 2018 was also to ensure that we do not have breakdowns in the cooperation between the EU and UK supervisory and resolution authorities in the case of no deal scenario. To this end, we have developed and agreed with the UK authorities templates for memoranda of understanding (MoUs) that will serve as the basis for bilateral MoUs that are being negotiated and signed by the relevant EU competent authorities with their UK counterparts. On the basis of these no-deal MoUs, we will then work on the 'steady state' or post-transitional period cooperation arrangements, which will also consider what type of future cooperation between the EU and UK will be generally in place.



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Finally, going forward, we need to ensure that there is appropriate dialogue between the EU and the UK authorities on policy development and regulation, although this matter is beyond the EBA's current scope and is being addressed in the political negotiations of the future relationship between the EU and the UK. From our side, the EBA will continue playing a crucial coordinating role between the supervisory and resolution authorities, and stand ready to assist the EU Commission on the technical aspects of these future arrangements.

The EBA started its relocation process soon after the decision of the Council in November 2017 to move the EBA's seat from London to Paris. What were the major operational challenges the organisation faced in 2018?

With the move to Paris approaching, 2018 has been a year of intense operational activity aimed at ensuring a smooth and seamless relocation to our new seat in La Défense as well as at preserving the efficiency and well-functioning of the core functions of the Authority.

One of the key challenges was to officialise our new seat in Paris. For that, we worked closely with the French Government and we recently signed the EBA's new Headquarters Agreement. Our Operations Department was particularly busy in securing the lease for our new premises and in organising and executing all the related fit out works and services. Taking advantage of the relocation, our IT unit prepared, designed and contracted new modern and secure office infrastructure, while strengthening security and prepared for migrating our datacentre.

In an effort to manage and control a possible loss of resources due to the relocation to Paris, we issued 10 vacancy notices to establish reserve especially in the core areas. However, I am pleased to say that so far, we have not witnessed a massive loss of human resources, and we do not expect any major disruption in this respect. In addition, to motivate and retain the existing staff as well as to help them throughout the transition phase, we have developed a number of specific arrangements, including a decision on teleworking, a policy on removal of staff households, the revision of the education contribution policy, etc. We have also organised, together with the French Authorities, French language training for staff members and their family members.



# Key publications and decisions

**Table 1:** Comprehensive list of EBA publications and decisions in 2018

<b>CP</b>	consultation paper
<b>DE</b>	decision
<b>DP</b>	discussion paper
<b>GL</b>	guidelines
<b>ITS</b>	implementing technical standards
<b>NO</b>	notification
<b>OP</b>	opinion
<b>O</b>	other
<b>REC</b>	recommendation
<b>REP</b>	report
<b>RTS</b>	regulatory technical standards

JANUARY	
<b>GL</b>	The EBA publishes final guidelines on disclosure requirements as regards IFRS 9 transitional arrangements
<b>O</b>	The EBA publishes an updated risk dashboard with data from Q3 2017
<b>REP</b>	The EBA publishes a report on the implementation of the EBA guidelines on methods for calculating contributions to deposit guarantee schemes
<b>O</b>	The EBA publishes an updated list of credit institutions subject to an LCR inflow cap derogation
<b>O</b>	The EBA launches the 2018 EU-wide stress test exercise
FEBRUARY	
<b>O</b>	The EBA publishes an updated EBA methodological guide
<b>O</b>	The ESAs publish a joint warning on the risks of virtual currencies
<b>O</b>	The EBA publishes a corrective update to the XBRL taxonomy 2.6 for the 2018 benchmarking exercise
<b>OP</b>	The EBA publishes an opinion on measures in accordance with Article 458 of Regulation (EU) No 575/2013
MARCH	
<b>REP</b>	The EBA publishes the EBA financial education report 2017/18
<b>O</b>	The EBA launches data point model data dictionary tools
<b>REP</b>	The EBA publishes the results of the CRD IV-CRR/Basel III monitoring exercise based on data as at 30 June 2017
<b>CP</b>	The EBA consults on management of non-performing and forborne exposures
<b>O</b>	The EBA publishes a revised list of validation rules in its implementing technical standards (ITS) on supervisory reporting
<b>O</b>	The EBA publishes a call for expressions of interest in relation to the Banking Stakeholder Group renewal process
<b>REP</b>	The EBA publishes a report on statutory prudential backstops
<b>OP</b>	The EBA publishes an opinion on measures in accordance with Article 458 of Regulation (EU) No 575/2013
<b>O</b>	The EBA publishes its FinTech roadmap: conclusions from the consultation on the EBA's approach to financial technology (FinTech)
<b>REP</b>	The ESAs publish the Joint Committee final report on big data
<b>REP</b>	The EBA publishes a report on the functioning of supervisory colleges in 2017
<b>REP</b>	The EBA publishes a report on the credit risk mitigation (CRM) framework
<b>O</b>	The EBA publishes an updated list of public sector entities for the calculation of capital requirements
<b>CP</b>	The EBA consults on the application of the existing Joint Committee guidelines on complaints-handling to authorities competent for supervising the new institutions under the MCD and/or PSD2
APRIL	
<b>O</b>	The EBA publishes an updated risk dashboard with data from Q4 2017
<b>REP</b>	The EBA publishes a report on benchmarking of remuneration practices at the European Union level and data on high earners (data as at end 2016)

<b>O</b>	The EBA publishes an updated list of closely correlated currencies
<b>REP</b>	The ESAs publish a Joint Committee report on risks and vulnerabilities in the EU financial system
<b>ITS</b>	The EBA publishes amended ITS on the provision of information for the purpose of resolution plans under Article 11(3) of Directive 2014/59/EU
<b>CP</b>	The EBA consults on the specification of types of exposures to be associated with high risk under Article 128(3) of Regulation (EU) No 575/2013
<b>CP</b>	The EBA consults on the STS criteria for non-ABCP securitisation
<b>CP</b>	The EBA consults on disclosure of non-performing and forborne exposures
<b>MAY</b>	
<b>REP</b>	The EBA publishes a report on its 2016 CVA risk monitoring exercise
<b>CP</b>	The ESAs consult on amending regulatory technical standards (RTS) on the clearing obligation and risk-mitigation techniques for OTC derivatives not cleared
<b>CP</b>	The EBA consults on estimation of LGD appropriate for an economic downturn
<b>CP</b>	The EBA consults on the specification of the nature, severity and duration of an economic downturn in accordance with Articles 181(3)(a) and 182(4)(a) of Regulation (EU) No 575/2013
<b>O</b>	The EBA publishes an updated list of other systemically important institutions
<b>O</b>	The EBA publishes 2017 data relating to two key concepts in the Deposit Guarantee Schemes Directive
<b>O</b>	The EBA and ESMA publish a statement on the treatment of retail holdings of debt financial instruments subject to the Bank Recovery and Resolution Directive
<b>JUNE</b>	
<b>ITS</b>	The EBA publishes final draft ITS amending Commission Implementing Regulation (EU) No 650/2014 on the format, structure, contents list and annual publication date of the supervisory information to be disclosed by competent authorities in accordance with Article 143(3) of Directive 2013/36/EU of the European Parliament and of the Council
<b>ITS</b>	The EBA publishes a revised list of ITS on supervisory reporting
<b>GL</b>	The EBA publishes final guidelines on the conditions to benefit from an exemption from the contingency mechanism under Article 33(6) of Regulation (EU) 2018/389 (RTS on SCA and CSC)
<b>OP</b>	The EBA publishes an opinion on the implementation of the RTS on SCA and CSC
<b>REP</b>	The EBA publishes its 2017 annual report
<b>DE</b>	The EBA publishes a decision on the settlement of a disagreement between two resolution authorities, the Single Resolution Board and the National Bank of Romania
<b>CP</b>	The EBA consults on the conditions to allow institutions to calculate capital requirements arising from securitised exposures in accordance with the purchased receivables approach
<b>REP</b>	The EBA publishes an amended report on recommendations on the equivalence of confidentiality regimes
<b>O</b>	The EBA publishes the first two papers in its Staff Paper Series: 'Sharing the pain? Credit supply and real effects of bank bail-ins' and 'Identification of EU bank business models'
<b>CP</b>	The EBA consults on outsourcing arrangements
<b>OP</b>	The EBA publishes an opinion on preparations for the withdrawal of the United Kingdom from the European Union
<b>O</b>	The EBA publishes an updated guidance note on compiling International Monetary Fund financial soundness indicators for 'deposit-takers' using the ITS on supervisory reporting
<b>OP</b>	The EBA publishes an opinion on measures in accordance with Article 458 Regulation (EU) No 575/2013
<b>ITS</b>	The EBA publishes an update to its ITS on benchmarking of internal approaches

<b>CP</b>	consultation paper
<b>DE</b>	decision
<b>DP</b>	discussion paper
<b>GL</b>	guidelines
<b>ITS</b>	implementing technical standards
<b>NO</b>	notification
<b>OP</b>	opinion
<b>O</b>	other
<b>REC</b>	recommendation
<b>REP</b>	report
<b>RTS</b>	regulatory technical standards

JULY	
<b>REP</b>	The EBA publishes a report on the prudential risks and opportunities arising for institutions from FinTech
<b>REP</b>	The EBA publishes a report on the peer review of the RTS on passport notifications
<b>REC</b>	The EBA publishes a recommendation to the Maltese Financial Intelligence Analysis Unit on action necessary to comply with the Anti-Money Laundering and Countering Terrorism Financing Directive
<b>GL</b>	The EBA publishes final guidelines on fraud reporting under PSD2
<b>GL</b>	The EBA publishes final guidelines on the revised common procedures and methodologies for the supervisory review and evaluation process and supervisory stress testing
<b>O</b>	The EBA publishes an updated risk dashboard with data from Q1 2018
<b>O</b>	The ESAs publish further guidance on the key information document requirements for packaged retail and insurance-based investment products
<b>REP</b>	The EBA publishes its report on the monitoring of CET1 instruments issued by EU institutions — first update
<b>REP</b>	The EBA publishes its report on the monitoring of AT1 instruments of EU institutions — third update
<b>O</b>	The EBA publishes its reply to claims by Caius Capital LLP that the European Central Bank has breached Union law by not disqualifying the Common Equity Tier 1 classification of Unicredit capital instruments
<b>REP</b>	The EBA publishes a report on the European Secured Notes
<b>RTS</b>	The EBA publishes final draft RTS specifying the requirements for originators, sponsors and original lenders relating to risk retention pursuant to Article 6(7) of Regulation (EU) 2017/2402
<b>REP</b>	The EBA publishes a report on the functioning of resolution colleges in 2017
<b>RTS</b>	The EBA publishes final draft RTS on the homogeneity of the underlying exposures in securitisation under Articles 20(14) and 24(21) of Regulation (EU) 2017/2402
<b>GL</b>	The EBA publishes an update to the Joint Committee guidelines on the application of the existing Joint Committee guidelines on complaints-handling to authorities competent for supervising the new institutions under PSD2 and/or the MCD
<b>RTS</b>	The EBA publishes final draft RTS on cooperation between competent authorities in home and host Member States in the supervision of payment institutions operating on a cross-border basis under Article 29(6) of PSD2
AUGUST	
<b>O</b>	The EBA publishes an update on data used for the identification of global systemically important institutions
<b>CP</b>	The EBA consults on draft ITS amending Implementing Regulation (EU) 2016/322 with regard to the LCR for liquidity reporting
<b>CP</b>	The EBA consults on draft ITS amending Implementing Regulation (EU) No 680/2014 with regard to FINREP
<b>CP</b>	The EBA consults on draft ITS amending Implementing Regulation (EU) No 680/2014 with regard to securitisations
SEPTEMBER	
<b>REP</b>	The ESAs publish a joint report on the results of the monitoring exercise on automation in financial advice
<b>O</b>	The EBA publishes 2018 quantitative impact study templates to assess the impact of the finalised Basel III standards
<b>ITS</b>	The EBA publishes a revised list of validation rules in its ITS on supervisory reporting
<b>O</b>	The EBA publishes revised standardised non-performing loan data templates
<b>REP</b>	The EBA publishes a report on funding plans
<b>REP</b>	The EBA publishes a report on asset encumbrance
<b>O</b>	The EBA launches its 2018 EU-wide transparency exercise
<b>O</b>	The EBA publishes the outcome of its enquiries in relation to the application of EU law on anti-money laundering in Malta by the Malta Financial Services Authority
<b>O</b>	The EBA publishes the ESA Joint Board of Appeal decision on an individual appeal against a decision of ESMA in relation to binary options and contracts for differences

## OCTOBER

<b>O</b>	The ESAs publish a letter in response to the Commission's request to develop guidance on facilitating the production and distribution of information on investment funds of 1 January 2020
<b>REP</b>	The EBA publishes a report on the Basel III monitoring exercise, with results based on data as at 31 December 2017
<b>REP</b>	The EBA publishes a report on liquidity measures under Article 509(1) of the CRR
<b>O</b>	The EBA publishes an updated risk dashboard with data from Q2 2018
<b>O</b>	The EBA acknowledges the adoption by the European Commission of the Implementing Act amending Regulation (EU) No 680/2014 (ITS on supervisory reporting)
<b>O</b>	The EBA announces the final timeline for the publication of the results of the 2018 EU-wide stress test
<b>O</b>	The EBA publishes its work programme for 2019
<b>CP</b>	The ESAs consult on draft amending ITS on the mapping of ECAIs' credit assessments under the CRR
<b>O</b>	The EBA acknowledges the adoption by the European Commission of the Implementing Regulation on the procedures and standard forms and templates for the provision of information for the purposes of resolution plans for credit institutions and investment firms
<b>CP</b>	The EBA consults on the new draft version of its data point model, DPM 2.9
<b>GL</b>	The EBA publishes final guidelines on management of non-performing and forborne exposures

## NOVEMBER

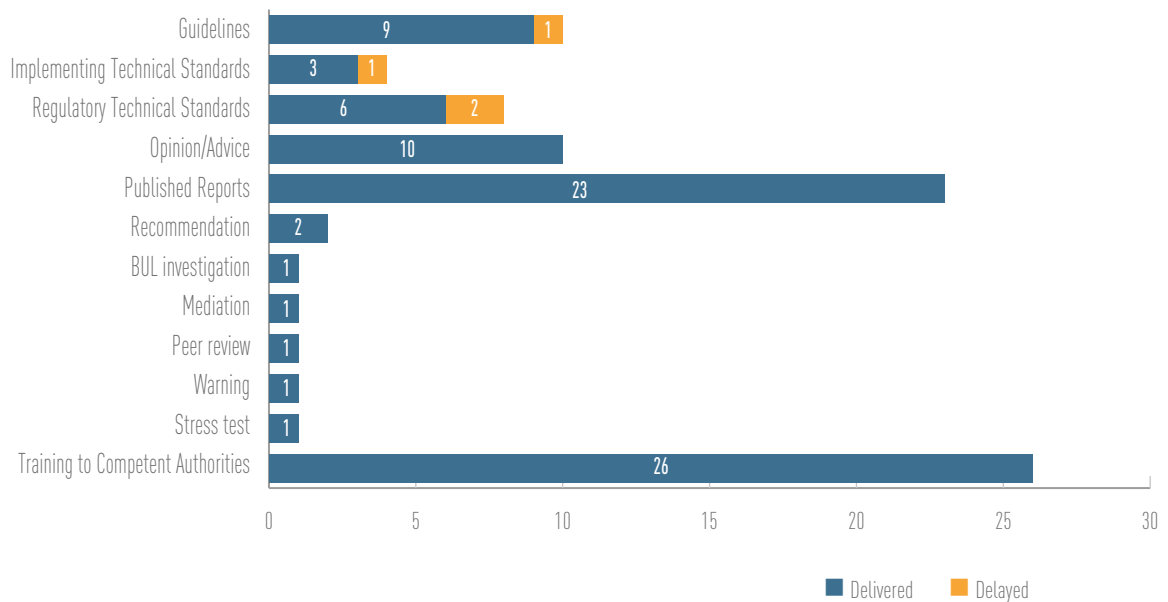
<b>O</b>	The EBA publishes the results of the 2018 EU-wide stress test
<b>CP</b>	The ESAs consult on the cooperation and information exchange for the purposes of Directive (EU) 2015/849 between competent authorities supervising credit and financial institutions
<b>REC</b>	The EBA publishes recommendations on the equivalence of confidentiality regimes
<b>CP</b>	The ESAs consult on draft amendments to Commission Delegated Regulation (EU) 2017/653 of 8 March 2017 on key information documents for packaged retail and insurance-based investment products (PRIIPs)
<b>RTS</b>	The EBA publishes final draft RTS on the specification of the nature, severity and duration of an economic downturn in accordance with Articles 181(3)(a) and 182(4)(a) of Regulation (EU) No 575/2013
<b>REP</b>	The ESAs publish a final report proposing to amend bilateral margin requirements to assist Brexit preparations for OTC derivative contracts
<b>O</b>	The EBA publishes updated information disclosed by EU competent authorities in accordance with its ITS on supervisory disclosure
<b>O</b>	The ESAs publish a joint statement on disclosure requirements for EU securitisations and consolidated application of securitisation rules for EU credit institutions

## DECEMBER

<b>GL</b>	The EBA publishes final guidelines on the conditions to benefit from an exemption from the contingency mechanism under Article 33(6) of Regulation (EU) 2018/389 (RTS on SCA and CSC)
<b>O</b>	The EBA announces the final timeline for the publication of the results of the 2018 EU-wide transparency exercise
<b>OP</b>	The EBA publishes an opinion on the use of eIDAS certificates under the RTS on SCA and CSC
<b>O</b>	The EBA publishes a revised list of validation rules
<b>GL</b>	The EBA publishes final guidelines on the STS criteria for non-ABCP securitisation
<b>CP</b>	The EBA consults on draft guidelines on ICT and security risk management
<b>O</b>	The EBA publishes a call for expressions of interest in participating in its working group on APIs under PSD2
<b>REP</b>	The EBA publishes its annual risk assessment report
<b>GL</b>	The EBA publishes final guidelines on disclosure of non-performing and forborne exposures

<b>CP</b>	consultation paper	<b>DE</b>	The EBA publishes a decision by the EBA Board of Supervisors regarding an EU-wide stress test in 2019
<b>DE</b>	decision	<b>OP</b>	The EBA publishes an opinion on preparations for the withdrawal of the United Kingdom from the European Union
<b>DP</b>	discussion paper	<b>RTS</b>	The ESAs publish final draft RTS amending Delegated Regulation (EU) 2016/2251 on risk-mitigation techniques for OTC derivative contracts not cleared by a central counterparty
<b>GL</b>	guidelines	<b>REP</b>	The ESAs publish a final report on amendments to the European Market Infrastructure Regulation clearing obligation under the Securitisation Regulation
<b>ITS</b>	implementing technical standards	<b>CP</b>	The EBA consults on draft ITS amending Commission Implementing Regulation (EU) 2016/2070 with regard to benchmarking of internal models
<b>NO</b>	notification	<b>REP</b>	The EBA publishes a report on first observations on the impact and implementation of IFRS 9 by EU institutions
<b>OP</b>	opinion	<b>O</b>	The EBA publishes a response to a letter received on reclassification of grandfathered own funds instruments
<b>O</b>	other		
<b>REC</b>	recommendation		
<b>REP</b>	report		
<b>RTS</b>	regulatory technical standards		

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



# Achievements in 2018

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## Playing a central role in the regulation and policy framework, with the development and maintenance of the Single Rulebook

### Monitoring the implementation of the regulatory framework

The EBA applies the principle of better regulation in its efforts to develop the Single Rulebook and strives to ensure that it performs rigorous impact assessments to support its work on regulatory policy.

Impact assessment at the EBA starts before new banking supervision policies are implemented in European Union (EU) regulations. The purpose of the work is to assess and regularly monitor the potential impact on the EU banking sector of implementing international banking regulation and/or best practices, such as the proposals of the Basel Committee on Banking Supervision (BCBS). The regular monitoring of international banking supervisory and regulatory standards enables the EBA to make proposals to the European Commission on items of EU regulation that would address the specificities of the EU banking system and ensure its safe and smooth functioning.

One such product is the regular report on the Basel III monitoring exercise conducted by the EBA. This consists of the EBA's analysis of the impact of the final Basel III rules on European credit institutions' capital and leverage ratios, and the estimated shortfalls resulting from a lack of convergence with the fully implemented Basel III framework. In October 2018, the EBA published a report on monitoring the impact of implementing the final Basel III regulatory framework in the EU, using data as at December 2017. The report contains a breakdown of the impact on the total minimum required capital arising from credit risk, operational risk, leverage ratio reforms and the output floor.

The EBA has also been active in providing early input to the BCBS before the development of supervisory standards, through new data collection activities that allow a better assessment of the proposed policies. In addition, the EBA collaborates closely with the BCBS to develop methodologies that more accurately assess the impact of the proposed BCBS supervisory standards.

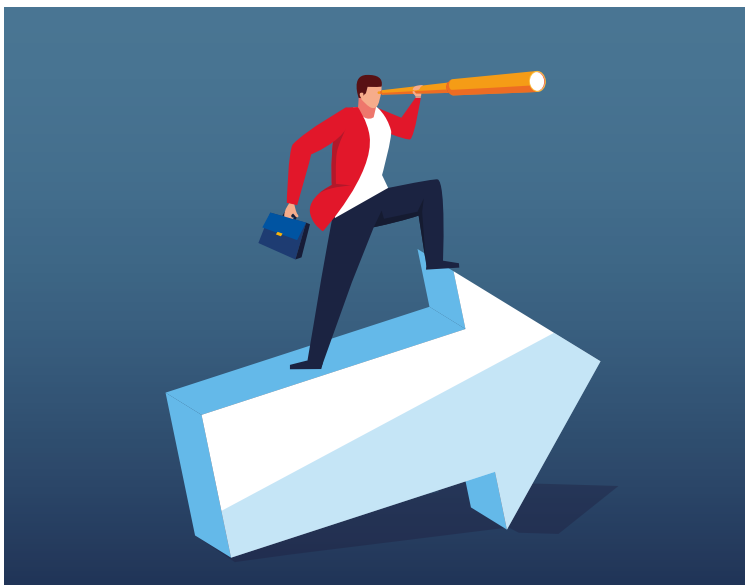
### Continuous monitoring of capital issuances

#### CET1 monitoring

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Article 80 of the Capital Requirements Regulation (CRR) mandates the EBA to monitor the quality of own funds instruments issued by institutions across the Union and to notify the Commission immediately where there is significant evidence of those instruments not meeting the criteria set out in Article 28 of the CRR or, where applicable, in Article 29 of the CRR. The EBA has been continuously monitoring the quality of Common Equity Tier 1 (CET1) issuances in the EU since 2013. In addition, in line with Article 26(3) of the CRR, the EBA regularly maintains and publishes an updated list of all forms of capital instruments in each Member State that qualify as CET1, the so-called EBA CET1 list.

The eligibility criteria against which the EBA performs the monitoring of CET1 issuances are those laid down in the CRR, in particular in Articles 26 to 31. Those criteria are supplemented by Commission Delegated Regulation (EU) No 241/2014, as amended by subsequent regulations, which incorporates around 20 of the draft regulatory technical standards (RTS) on own funds that the EBA has delivered to the Commission in this area.



Since the completion of the regulatory framework, marked by the adoption of the above-mentioned regulation, the EBA has placed greater emphasis on reviewing the implementation of the eligibility criteria applicable to capital instruments under the CRR and the RTS. As part of this long-standing work, the EBA has been assessing the terms and conditions of new forms of CET1 instruments that have been issued by EU institutions to identify provisions governing the instruments that the EBA considers to contradict the eligibility criteria. In cooperation with competent authorities (CAs), the EBA is also conducting a review of pre-CRR instruments.

In several cases, the EBA has requested amendments to the terms and conditions of the instruments, mainly relating to the eligibility criteria of permanence and flexibility of payments. The main results of the monitoring work performed by the EBA are reflected in the CET1 report, which was published for the first time in 2017 and updated in mid-2018. The findings presented are not intended not to cover every issue assessed but, rather, to

highlight areas in which the EBA believed it was necessary to amend terms and conditions or national laws, by-laws or statutes to make the new or pre-CRR form of instruments fully compliant with CRR requirements and hence eligible as CET1 capital.

It is worth mentioning that some observations may be specific to a given instrument issued by a specific institution and may not apply to other institutions using the same type of instrument. This may be the case where the institution has included in its articles of association provisions that alter the nature of the type of instrument. By contrast, some observations may relate to a type of instrument widely used by several or all institutions in a given jurisdiction because some features of that type of instrument are directly ruled by the national corporate laws. In such a case, the EBA conducts a survey in cooperation with a competent authority that has direct and expert knowledge of the applicable framework in its jurisdiction. The objective is to obtain an EU-wide, comprehensive outlook enabling the continuous vigilance and support of the robustness of European banks' capital.

#### AT1 monitoring

In the same vein, the EBA also has been monitoring issuances of Additional Tier 1 (AT1) capital instruments. The primary focus of the EBA's work in this area has been on the assessment of selected AT1 issuances. The terms and conditions of these selected issuances have been assessed against the regulatory requirements in order to identify provisions that the EBA considers should be recommended or avoided.

The main results of this work have been summarised and presented in the form of a report, the AT1 report, which was first published in October 2014 and has been updated several times since then, with the latest update dating

## ONGOING WORK

The EBA expects that forthcoming issuances will attain an even greater level of standardisation. The EBA's focus will shift to the monitoring of AT1 calls and the rationale for calling/not calling the instruments.



from July 2018. For this most recent update, the EBA reviewed 23 AT1 issuances, between May 2015 and December 2017, for a total of EUR 11.41 billion. Eight issuances were made under a conversion mechanism and 15 under a write-down mechanism. Since the publication of the first report, the EBA has reviewed, in total, 56 issuances for EUR 44.68 billion.

Again, the report makes no claims to be fully comprehensive but highlights areas where the EBA believes it necessary to revise the wording of certain existing clauses for future issuances or where the EBA, for future reference, would recommend avoiding particular clauses currently under consideration by prospective issuers. This was the case particularly for provisions related to regulatory calls, share conversion mechanisms, contingent clauses and covenants.

In October 2016, the EBA published standardised terms and conditions for AT1 issuances that are meant to cover the prudential aspects of the issue conditions. By the time of the latest update to the AT1 report, and after more than 3 years of monitoring, the EBA noted an increased level of standardisation of the terms and conditions, with some issuers using the provisions proposed in the EBA standard template for certain definitions or for particular parts, or even to a larger extent. The EBA believes that this increased standardisation is partly due to the guidance published by the EBA and regularly communicated by supervisors. As a result, fewer observations were made during the latest stage of the ongoing monitoring of AT1 issuances.

#### Guidance on the reclassification of grandfathered instruments

In 2018, and in response to requests for clarifications on the nature and compatibility of such transactions, the EBA provided guidance through its question and answer (Q&A) process on the reclassification of grandfathered instruments. In particular, EBA Q&A 2018 4417 clarifies the appropriate prudential treatment of institutions' decisions to reclassify own funds instruments from a grandfathered category to a fully eligible one and recalls the objectives of the grandfathering provisions. In a nutshell, the general purpose of the grandfathering provisions as they relate to own funds is to ensure an appropriate continuity in the level of own funds. In addition, these provisions should also ensure that institutions have

sufficient time to meet the new required levels and definitions of own funds and that capital instruments that do not comply with the definition of own funds laid down in the CRR are phased out. The deviations from the new criteria on the quality of own funds instruments allowed by the grandfathering provisions should be limited to the largest extent possible. Opportunities for institutions to benefit from a grandfathered treatment should, therefore, be subject to strict conditions.

#### Monitoring of IFRS 9 implementation

In December 2018, the EBA published a report on its first observations on the impact and implementation of International Financial Reporting Standard (IFRS) 9 by EU institutions. This report followed the two pre-implementation impact assessments published in November 2016 and July 2017. The 2018 report was based, rather than on estimations, on the impact arising from the actual data reported by a sample of approximately 50 European Economic Area (EEA) banks. The data included in the report were collected through the supervisory reporting templates (COREP/FINREP) submitted by the institutions and supplemented with public disclosure information, where necessary. To extract the data, the EBA used a set of custom-built indicators developed for this specific exercise.

According to the data collected, the simple average impact arising from the implementation of IFRS 9 on the CET1 ratio (51 basis points <sup>(1)</sup> (bps)) and the simple average increase in provisions (9%<sup>(2)</sup>) broadly confirmed the estimations received from banks during the pre-implementation exercises conducted by the EBA. The report also shows that the impact of the application of the transitional arrangements mitigating the impact of IFRS 9 on capital ratios (the IFRS 9 transitional arrangements) corresponded, on average, to an add-back of 118 bps to CET1 (for those banks in the sample where this information was available).

As highlighted in the report, the results indicate that banks using mainly an internal ratings-based (IRB) approach experienced a significantly smaller average negative impact on CET1 (-19 bps on simple average) <sup>(3)</sup> than

<sup>(1)</sup> 25bps weighted average

<sup>(2)</sup> 14% weighted average

<sup>(3)</sup> 21bps weighted average

## ONGOING WORK

IFRS 9 is a complex standard and poses many challenges for supervisors and regulators in ensuring high-quality and consistent implementation. In this regard, the EBA will continue monitoring the implementation of the standard, promoting the consistent application of IFRS 9 and working on its interaction with prudential requirements. In addition to the work on IFRS 9 modelling aspects, specific areas of planned further work include analyses of the effectiveness of the EBA guidelines for communication between supervisors and auditors in the context of IFRS 9 and of the EBA guidelines on expected credit losses. In addition, the EBA will continue to monitor other issues such as the application of the IFRS 9 transitional arrangements in the EU.

banks mainly using the standardised approach for credit risk [-157 bps on simple average] <sup>(4)</sup>. This difference can be largely attributed to the difference in regulatory terms: for IRB banks, regulatory expected losses were already reflected in CET1.

In addition to preparing and publishing the report on the post-implementation impact of IFRS 9, the EBA also continued, over the course of 2018, its other work on issues arising from the application of IFRS 9 in the EU banking sector. In particular, this included the publication of a number of Q&As on the application of the IFRS 9 transitional arrangements in the EU.

### Improving clarity with regard to minimum capital requirements for credit risk

In 2018, in the area of the standardised approach for credit risk, the EBA put emphasis on increasing the clarity of the European regulatory framework, with a particular focus on the CRR provisions regarding the credit risk mitigation (CRM) framework, as well as on the harmonisation of practices with regard to the identification of items associated with particularly high risk in accordance with Article 128(3) of the CRR.

<sup>(4)</sup> 58bps weighted average

### CRM report

As part of its work programme on the review of the IRB approach, the EBA had committed to performing an assessment of the current CRM framework and, on 19 March 2018, it published a report<sup>(5)</sup> on the topic. This report belongs to the fourth and last phase of the EBA's roadmap on the IRB approach, which also includes a review of supervisory practices, a harmonised definition of default, and clarification of the modelling approaches to be used by institutions.

In preparing the report, the EBA carried out a mapping of CRR provisions regarding the CRM techniques, eligibility and methods available to institutions under the standardised approach and the foundation IRB approach. The mapping was supplemented by a quantitative overview of institutions' use of the CRM framework, as well as a series of policy proposals for the consideration of the Commission, with a view to ensuring the proper and harmonised application of the current CRR provisions on the CRM framework through the necessary amendments to the regulation.

Moreover, one of the main concerns was the lack of guidance on the CRR provisions on CRM and their application to advanced IRB models. It was emphasised on several occasions that there was a need for a set of guidelines detailing the correct use of CRM provisions with an emphasis on the relevant provisions for advanced IRB banks. The report confirmed the EBA's intention to develop such guidelines, for which purpose a consultation paper was published on the EBA website in February 2019.<sup>(6)</sup>

### EBA guidelines on specification of types of exposures to be associated with high risk

Article 128 of the CRR sets out the requirements for classifying an exposure as an item associated with particularly high risk, which results in an assignment of a 150% risk weight for the exposure in question. With these guidelines, the EBA aims not only to enable a higher degree of comparability in terms of current practices in identifying exposures associated with high risk but also to facilitate the transi-

<sup>(5)</sup> <https://eba.europa.eu/-/eba-published-an-assessment-of-the-current-credit-risk-mitigation-framework>

<sup>(6)</sup> <https://eba.europa.eu/-/eba-consults-on-guidelines-on-credit-risk-mitigation-for-institutions-applying-the-irb-approach-with-own-estimates-of-lgd>

tion required by the upcoming regulatory revisions, noting that the forthcoming implementation of the revised Basel standards will apply only from 2022.

The guidelines consist of two sections. In the first section, in line with its prerogatives, the EBA has taken the initiative to provide, for the purposes of those guidelines only, a definition of the notions of private equity and venture capital. These definitions are deemed necessary for providing guidance and ensuring harmonisation regarding the types of exposures that are considered investments in venture capital and private equity. The second section specifies the types of exposures other than those listed in Article 128(2) of the CRR, points (a) to (d), that should be considered high risk (and under which circumstances) by applying Article 128(3) of the CRR. The aim of this section is to provide institutions with a clearer, holistic identification scheme for exposures associated with high risk.

## Continuing the repair and benchmarking of internal models

### Benchmarking of internal models

In 2018, the EBA conducted its annual supervisory benchmarking (SVB) exercises, aimed at identifying outliers in the calculation of risk-weighted assets (RWAs) using internal models. The comparison of risk parameters across European banks allows supervisors to identify possible sources of differences and, when they are not justified, it triggers the necessary policy actions to improve convergence and promote disclosure. Since 2015, such a comparison has formed part of yearly SVB exercises, in accordance with Article 78 of the Capital Requirements Directive (CRD), which sets out requirements for institutions, competent authorities and the EBA concerning the establishment of a regular SVB process to



**Susanne Roehrig**

SENIOR POLICY EXPERT



### THE EBA'S WORK ON LOSS GIVEN DEFAULT (LGD) ESTIMATION UNDER AN ECONOMIC DOWNTURN

I took over the work on the RTS on economic downturn in summer 2017, when a colleague took maternity leave, being well aware that it is one of the most controversial aspects of LGD estimation for calculating capital requirements under the advanced IRB approach. In fact, the quantification of downturn LGD has been challenging for competent authorities, the industry and academics alike ever since the Basel II framework introduced this concept. I started out based on the feedback that the EBA had received on the first consultation on a draft RTS. Studying this feedback, I realised that at least some controversy simply stemmed from non-defined terminology. Where some would use the term 'economic downturn' to refer to a macroeconomic condition, others referred directly to downturn LGDs. Disentangling these aspects paved the way for the finalisation of the work. This, in turn, had a big impact on the EBA's workload on the IRB roadmap (link) as it became clear that the work on the downturn had to be split into two parts: the RTS on the specification of an economic downturn and the guidelines on estimating LGD appropriate for an economic downturn. This was, however, not the only obstacle on the way to reaching an agreement on the policy. Another difficulty was providing a level playing field for jurisdictions and the industry, which had recently witnessed a downturn and those that had not. Instead of restricting the resulting downturn LGD values, the final policy in the guidelines limits the methodologies that are used for the calibration of downturn LGD. In this respect, the policy is consistent with EBA's general supportive stance as regards the risk sensitive approaches towards the calculation of capital requirements for credit risk.



assess the internal models used to compute own funds requirements (with the exception of operational risk). Following each of these exercises, the EBA has published horizontal reports summarising the main findings for credit risk and market risk.

The most challenging aspect when comparing RWAs is distinguishing the influence of risk-based drivers from that of practice-based drivers. Hence the benchmarking methods differ for credit risk and market risk.

With respect to credit risk, the 2018 report presented for the first time results on both high default portfolios (HDPs) and low default portfolios (LDPs). The aim of this study was not only to assess the overall level of variability in RWAs but also to examine and highlight the different drivers of the dispersion observed. In particular, the report shows that a high share

of the variability can be explained by measurable features of institutions' exposures. These findings were confirmed by a bottom-up analysis based on a subsample of common counterparties for LDPs and by back-testing results for HDPs.

With respect to market risk, the simplification of the benchmark portfolios resulted in an improvement in the data quality. The report was able to quantify the levels of risk for the different types of product, indicating that interest rate instruments exhibit the lowest level of dispersion. However, variability increases with the complexity of the risk metrics, and stressed value at risk, incremental risk charge and all price risk show higher levels of dispersion.

The details of the annual benchmarking exercises are included in the implementing technical standards (ITS) that specify the bench-

Figure 2: EBA roadmap on internal model repair



marking portfolios and reporting instructions to be applied. In June 2018, the EBA published its annual update to these ITS, defining the benchmarking portfolios for the 2019 benchmarking exercise. On the market risk side, a significant simplification of the portfolios collected was introduced in an attempt to further increase data quality, the coverage of the instruments and understanding of the roots of the variability of the models' outcomes. On the credit risk side, minor adjustments were included, with a view to enhancing the segmentation of the benchmark portfolios.

The overall results of the review of RWAs are a key input to the EBA's work on the variability of own funds requirements stemming from internal model approaches.

#### Continuing the repair of IRB models

The EBA is finalising its IRB roadmap as set out in its report on the regulatory review of the IRB approach published in February 2016. In 2018, the work on the identification of an economic downturn and its impact on LGD estimates was finalised as the last element of the IRB roadmap. Clarifications are provided in the final draft RTS on the specification of the nature, severity and duration of an economic downturn published in November 2018, and in the EBA guidelines on downturn LGD estimation published in early 2019.

In addition, to complement the IRB roadmap, the EBA has initiated work on guidelines on credit risk mitigation for institutions applying the IRB approach with own estimates of LGDs, which resulted in a consultation paper published in February 2019.

The technical standards and guidelines developed as part of the IRB roadmap promote best practices in modelling risk parameters and consistent assessment by supervisory authorities. It is expected that they will be implemented by the end of 2020, leading to a substantial improvement in the comparability of risk estimates and RWAs across institutions. The main objectives of the IRB roadmap are to restore the trust of market participants in the outcomes produced by internal models and to ensure a level playing field and RWAs that adequately reflect the level of risk taken on by institutions.

## ONGOING WORK

With the final draft RTS on the nature, severity and duration of economic downturn published in November 2018 and final Guidelines on downturn LGD estimation published in March 2019, the EBA's IRB roadmap is complete.

### Implementing the revised counterparty credit risk and market risk standards in the EU

The EBA continued to contribute to the smooth implementation in the EU of the revised counterparty credit risk and market risk international standards by supporting Basel developments, as well as preparing the ground for the upcoming CRR2 legislation.

Following a consultation on its discussion paper on the implementation in the EU of the revised market risk and counterparty credit risk frameworks, published on 18 December 2017, the EBA received 14 responses, in addition to feedback from its Banking Stakeholder Group (BSG).

The discussion paper put forward initial proposals and preliminary views on how to address eight mandates in the CRR2 proposal, two on the SA-CCR (standardised approach for counterparty credit risk) and six on the FRTB (Fundamental Review of the Trading Book). In addition, it called on stakeholders to provide their views on any additional implementation issues that they had identified. The discussion paper also outlined a preliminary roadmap and prioritisation for the development of the regulatory deliverables on the SA-CCR and FRTB included in the Commission's CRR2 proposal. For each of those implementation issues, the paper provided some background and rationale, and presented the outcome of preliminary discussions within the EBA on options or proposed ways forward, as well as 74 questions for stakeholders.

The EBA carefully reviewed and analysed the industry's feedback and, based on that, started developing the SA-CCR and FRTB deliverables to very tight deadlines, which were confirmed by the CRR2 legislative procedure.

## ONGOING WORK

The EBA will publish a roadmap for the development of SA-CCR and FRTB regulatory deliverables in 2019 and is expected to consult on the first SA-CCR and FRTB RTSS in the course of the same year.

In parallel, the EBA contributed, as an observer at the BCBS, to resolving outstanding issues relating to the FRTB framework and the finalisation of the revised FRTB standards. On 22 March 2018, the BCBS published a consultative document on revisions to the standards on market risk, which put forward proposals to review the FRTB standards on targeted areas, as well as a proposal for a simplified standardised approach for market risk. The Basel Committee released its revised *Minimum capital requirements for market risk* on 14 January 2019.

### Harmonising the outsourcing framework



## THE EBA'S WORK ON OUTSOURCING



**Bernd Rummel**

PRINCIPAL POLICY EXPERT

**Djamel Bouzemarene**

SENIOR POLICY EXPERT

**We live in an ever faster changing world with complex financial markets; why is outsourcing now so much more in focus than before?**

**Bernd:** I started working in banking 30 years ago, when we had quite simple structures. IT solutions had started to evolve but were mainly based on mainframes. In recent decades, banks have become more and more complex, offering ever more sophisticated services to the economy and facilitating many technological advances. To integrate the newest technologies and be cost effective, institutions make more and more use of outsourcing to specialised service providers.

**Was it necessary to update the CEBS guidelines on outsourcing?**

**Djamel:** Yes, absolutely. We wanted to set out better regulation that is more proportionate, clear and takes into account emerging trends in banking and other parts of the financial sector. The old guidelines were published in 2006 and adopted by the EBA's predecessor, CEBS, under a

different legal framework, and they were only applicable to credit institutions. An update was needed to take into account the current applicable legal framework (the CRD, MiFID II and PSD2) that applies to credit institutions, investment firms, and e-money and payment institutions, as they all have overlapping business activities. Today, different types of firms compete on the same market. For the broader picture, over recent years, with very limited interest margins, financial institutions have become increasingly interested in outsourcing business activities to create a more efficient business model with an improved cost to income ratio. In the context of digitalisation, and the increasing importance of new financial technologies, financial institutions are adapting their business models to facilitate the use of such technologies in their distribution channels and internal processes to create additional value. Bernd, do you want to add anything?

**Bernd:** Not really, but you are right — everyone can see those trends. Banks are offering more and more activities via mobile and online banking, which often make use of technologies provided by third parties. I am sure that all consumers want this to be done in a safe and sound way.

#### **Can you please explain what the challenges are regarding outsourcing in the financial sector?**

**Bernd:** Let me first explain what we define as outsourcing. This is the provision of services, activities or processes by third parties that otherwise would be undertaken by institutions themselves. It is important that the public can continue to trust in the proper conduct of business by institutions, even if some of their services are bought in. Outsourcing must be performed in a safe and controlled way to avoid an undue increase in operational and reputational risks. Moreover, we see that more and more institutions use the same service providers or a limited set of service providers to gain access to new technologies like cloud outsourcing or other FinTech solutions. While those technologies can lead to a better and more efficient service for customers, we are aware that such developments can also lead to the concentration of risks as some infrastructures become critical even for the functioning of the financial market. By requiring a register of all outsourcing arrangements, our work establishes the means to monitor such risk concentrations.

#### **As policy experts in the area of governance, what is your role in this context?**

**Djamel:** Firstly, it should be mentioned that one of the key tasks of the EBA is to ensure a common framework across the EU for the use of outsourcing by institutions and payment institutions, fostering supervisory convergence. Such a framework also ensures a level playing field between different types of financial institutions. Looking at the Banking Union, it is of paramount importance to establish a single rulebook for all regulatory requirements.

#### **What is the link with the EBA recommendation on outsourcing to cloud services providers?**

**Djamel:** The importance of outsourcing functions to cloud service providers has increased rapidly in many industries. Actually, many people are using cloud services without being fully aware of the fact. For financial institutions, this goes far beyond simple storage and backup solutions. In 2017, the EBA addressed the specificities of outsourcing to the cloud by developing recommendations on outsourcing to cloud service providers. The recommendations ensured that institutions and service providers could rely on defined supervisory expectations regarding outsourcing to cloud service providers, removing the uncertainty about the use of cloud services. The recommendations have been integrated into the present guidelines and will be repealed when the revised guidelines enter into force on 30 September 2019.

#### **What are the main requirements of the guidelines on outsourcing arrangements?**

**Bernd:** The requirements are based on the simple logic that banks must have all their business activities under control. Even if something is outsourced, institutions remain responsible to their counterparties and customers.

The guidelines cover the whole outsourcing process, from the initial risk analysis to entering into an outsourcing contract and exiting from existing arrangements. Institutions must not only assess the risks of outsourcing a function but also the ability of the service provider to perform

the function. All aspects of the outsourcing arrangements must be set out within a written outsourcing arrangement. Depending on the riskiness of an outsourcing arrangement or, in other words, if it is considered critical or important, strict regulatory requirements apply regarding the documentation, the permissibility for sub-outsourcing or chain outsourcing and preparedness to exit from outsourcing arrangements. Outsourcing of critical and important functions has a higher impact on an institution's or a payment institution's risk profile, and it may, if the service is performed inappropriately, lead to severe business disruptions, material financial losses and breaches of regulatory requirements. The guidelines set out the supervisory expectation that, at least for the outsourcing of critical and important functions, audit and access rights for institutions, payment institutions and competent authorities must be ensured.

Following the principle of proportionality, lower requirements are set for other — non-critical or non-important — outsourcing arrangements. We very often receive questions about how the guidelines should be applied in a group context. Djamel, you may want to explain how the guidelines facilitate application in a group context, but also within institutional protection schemes.

**Djamel:** While the requirements allow for the facilitation of synergies within groups and institutional protection schemes, they require all institutions on a stand-alone and consolidated basis to have robust governance arrangements in place. The CRD in some cases allows application on a solo level to be waived by competent authorities. Considering the closer cooperation between institutions that are part of a group or institutional protection scheme, the guidelines allow institutions to use risk and due diligence assessments performed centrally as long as they receive sufficient information to make well-informed decisions on entering into outsourcing arrangements. Also, the register of all institutions can be established centrally.

**Considering the high level of globalisation, could you please explain how the guidelines affect service providers in third countries?**

**Djamel:** Particular challenges to ensuring the effective supervision of institutions and payment institutions, including with regard to their outsourced functions, exist when functions are outsourced to service providers located in third countries that do not apply equivalent prudential standards and where there is no cooperation agreement between Union and third country competent authorities.

Institutions need to ensure that outsourcing arrangements with service providers in third countries ensure compliance with regulatory requirements and requirements regarding the protection of data. Where a function is outsourced to a third country provider to an extent that this function would require authorisation or registration in the EU, it must be ensured that there is a cooperation agreement between the competent authorities. If such an agreement does not exist, such functions should not be outsourced to the third country in question.

**What do you think will be the next topics in this regulatory field?**

**Djamel:** We will have to look more closely at the concentration of outsourcing arrangements with certain service providers, in particular with regard to outsourcing of information and communication technologies.

**Bernd:** We will also need to look more closely at the development of FinTech and RegTech services. In light of initiatives on sustainable banking, also aspects of the environmental, social and governance impact need to be considered. The guidelines have already created a first link to those aspects by requiring institutions to take into account human rights when they outsource functions, in particular to service providers in third countries.





### Monitoring remuneration practices

The EBA continuously monitors remuneration practices in the EU, and for that purpose collects remuneration benchmarking data and information on high earners (staff receiving EUR 1 million or more per financial year). The EBA reports its findings on remuneration trends and practices every other year, while information on high earners is published every year.

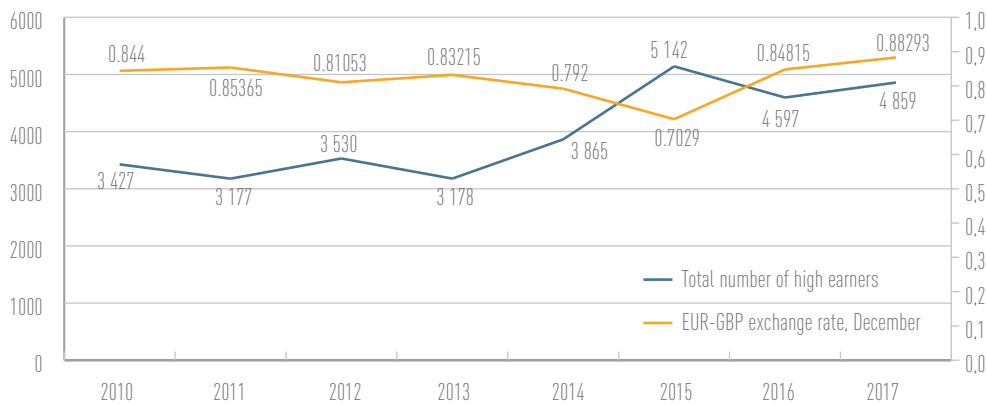
In 2018, the EBA analysed trends in relation to high earners based on figures for the financial year 2017, and published its report at the beginning of 2019.

## ONGOING WORK

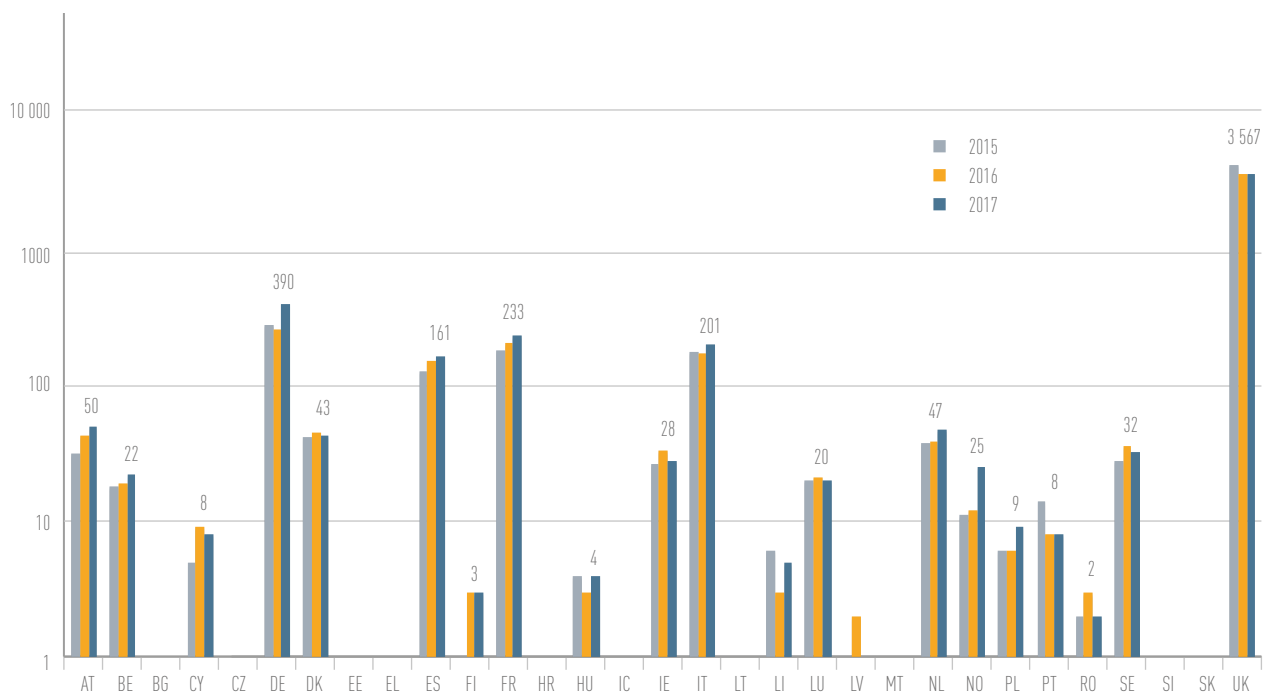
The next comprehensive benchmarking report is expected to be published at the beginning of 2020 and will be based on the data collected in 2017 and 2018.

The number of high earners receiving remuneration of more than EUR 1 million increased in 2017 by only +5.69% to 4 859 (2016: 4 597). The largest population of high earners in the EU, of 3 567 (73.41% of the total num-

**Figure 3:** Trends in the number of high earners and the EUR-GBP exchange rate



**Figure 4:** Number of high earners by Member State (values shown refer to 2017) (logarithmic scale)



## Upcoming mandates on governance and remuneration

A new regulatory cycle, with CRD V/ CRR2 and the investment firms prudential package, will soon come into force. Both packages set out several mandates for the EBA in the areas of remuneration and governance, mainly requirements for guidelines and RTS. Most of these products will be developed in close cooperation with the European Securities and Markets Authority (ESMA). While the

CRD review will be limited to updating existing products, new drafts are required as part of the investment firms framework, relating to, for example, waivers of certain requirements relating to remuneration of identified staff in banks and investment firms, gender neutral pay and RTS to specify how governance arrangements will apply to investment firms.

ber of high earners), is located in the United Kingdom (UK), where the EBA observed only a minor increase by 38 high earners. Compared with previous years, the exchange rate between EUR and GBP did not have - as observed in previous years - a significant influence on the number of high earners.

The overall increase of 262 high earners is mainly due to an increase of high earners in several Member States, while in a few other Member States the number of high earners slightly decreased (Cyprus, Denmark, Greece, Ireland, Luxembourg, Latvia, Romania and Sweden). The percentage of high earners that are identified staff went down slightly: 86.89% in 2017 compared to 89.47% in 2016.

The average ratio of variable to fixed remuneration for all high earners in the EU has continued to fall from 104% in 2016 to 101.08% in 2017 (118% in 2015; 123% in 2014). In the business area of asset management, the average ratio of variable to fixed remuneration increased from 358% in 2016 to 402% in 2017, still far exceeding the maximum ratio of 200%. Several Member States allow the application of waivers for staff in this business area, although CRD IV does not explicitly provide for this possibility.

### Contributing to the Capital Markets Union action plan

The creation of a Capital Markets Union (CMU) is well under way and is one of the European Commission's flagship projects. It is necessary to strengthen capital markets in the EU through a shift towards marketable debt securities and equity and away from the current overreliance on banks' funding to the real economy. The ultimate goal of creating a financial system where bank-based loans are no longer the almost exclusive funding source for European firms, in particular small and medium-sized enterprises (SMEs), is also a sensible one from a risk-sharing perspective and will lead to further integration and a more robust EU financial system as a whole.

In 2018, the EBA provided assistance and advice to the European Commission, the Council of the European Union and the European



Parliament in the process of the adoption of a legislative proposal for a new covered bonds framework, based on the recommendations of the EBA report on covered bonds published in 2016. The resulting legal instruments, a directive setting out substantive common standards and a regulation amending the CRR, largely reflect previous EBA advice and are expected to be adopted in the second half of 2019.

In June 2018, the EBA published a report and a recommendation on the possible adoption of dedicated European Secured Notes for SMEs and an infrastructure loans legal framework, following a call for advice from the European Commission.<sup>(7)</sup> The EBA counselled against creating such a legislative framework at this stage and advised the European Commission to explore the merits of a dedicated legislative framework for bonds backed by high-quality project finance loans. Finally, the EBA continued working to develop the framework for simple, transparent and standardised (STS) securitisations, to foster greater regulatory and supervisory convergence.

As regards the assessment of significant risk transfer, the EBA has continued engaging with national supervisory authorities with a view to harmonising this supervisory assessment process across the EU.

The EBA has been very committed to the CMU project since its creation in November 2014

<sup>(7)</sup> <https://eba.europa.eu/documents/10180/2087449/EBA+Final+report+on+ESNs.pdf>

and has become, over the years, the leading regulatory body on securitisation and covered bonds in the EU. It has also been recognised as an established EU training hub in the area of securitisation and covered bonds.

### Implementing the new securitisation framework (STS)

The new common EU rules on securitisation<sup>(8)</sup> and capital requirements on securitisation<sup>(9)</sup> became applicable on 1 January 2019. These new rules are based on the STS securitisation framework previously developed by the EBA.

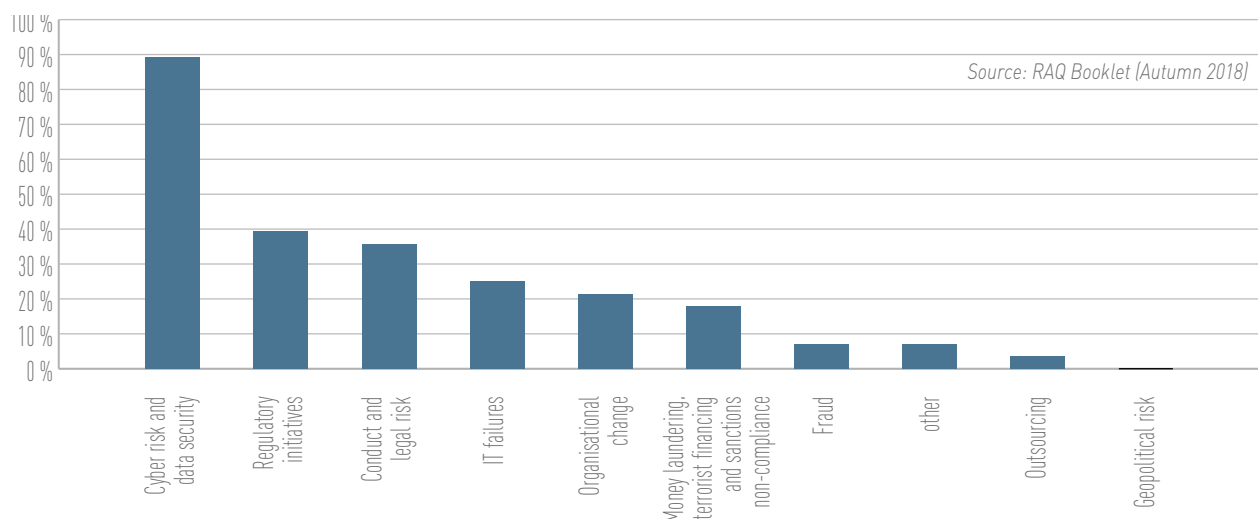
Under the new securitisation framework, the EBA has received 28 regulatory mandates, which include requirements to draft a number of technical standards, guidelines, recommendations and reports, to be delivered in the next couple of years.

The year 2018 was, therefore, crucial for the implementation of the new EU securitisation rules. The EBA successfully delivered on five of those mandates, including the guidelines on the interpretation of the STS criteria for both asset-backed commercial paper (ABCP) and non-ABCP securitisations, the draft technical

<sup>(8)</sup> Regulation (EU) 2017/2402 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation.

<sup>(9)</sup> Regulation (EU) 2017/2401 amending Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms.

**Figure 5:** The main drivers for increasing operational risk



standards on homogeneity and the draft technical standards on risk retention, the purpose of which is to harmonise the requirements on this matter to help ensure consistent application by institutions.

These mandates were considered necessary to ensure the proper functioning of the securitisation market and the smooth implementation of the new securitisation framework in 2019.

### Mitigating and managing ICT risks and cyber security

According to the latest EBA risk assessment report (December 2018),<sup>[10]</sup> risks related to information and communication technology (ICT) are currently one of the main challenges for EU banks: almost 90% of the banks responding to the risk assessment questionnaire (RAQ) pointed to cyber risks and data security as key operational risk drivers. The complexity of ICT risks is increasing and the frequency of ICT-related incidents (including cyber incidents) is rising, as is the significance of their potential adverse impact on financial institutions' operational functioning. Moreover, due to increasing interconnectedness, ICT-related incidents risk having systemic impact.

In this context, the EBA conducted its work on ICT risks in 2018 in line with the requests in the European Commission's FinTech action plan published in March 2018. The first outcome was a set of guidelines on ICT and security risk management,<sup>[11]</sup> aiming to mitigate all ICT risks — internal or external — including security-related risks, for all financial institutions. These guidelines establish requirements for credit institutions, investment firms and payment service providers (PSPs) on the mitigation and management of their ICT risks, and they aim to ensure a consistent and robust approach across the Single Market. The guidelines outline expectations in relation to governance, the risk assessment process, information security requirements, ICT operational management, security in the change and development processes, and business continuity management to mitigate ICT and security risks. Specifically for PSPs, the guidelines cover the management of their relationship with payment service users to ensure that the measures implemented are communicated clearly to them.

The public consultation on the draft guidelines was launched on 13 December 2018 and the final guidelines are expected to be published in Q3 2019.

<sup>[10]</sup> [https://eba.europa.eu/documents/10180/2518651/Risk\\_Assessment\\_Report\\_December\\_2018.pdf](https://eba.europa.eu/documents/10180/2518651/Risk_Assessment_Report_December_2018.pdf)

<sup>[11]</sup> <https://eba.europa.eu/documents/10180/2522896/EBA+BS+2018+431+%28Draft+CP+on+Guidelines+on+ICT+and+security+risk+management%29.pdf>



## Promoting efficient and coordinated crisis management of resolution

### Valuation handbook

In the course of 2018, the EBA developed a handbook on valuation for purposes of resolution, which was adopted at the beginning of 2019. It is addressed to national and EU resolution authorities and aims to foster the convergence and consistency of valuation practices, as well as interaction with independent valuers across the EU.

The handbook was drafted from a regulatory perspective and combines the regulatory approach to resolution with actual valuation practices. It provides clear guidance on the practical steps involved in the valuation process and on the specific valuation criteria applicable to the various resolution tools; furthermore, with a view to facilitating the adoption of an informed decision by the resolution authority, it indicates the content that is expected to be included in the valuation report. It is, therefore, a valuable support for both resolution authorities and independent valuers, and it should increase the uniformity and consistency of approaches to the valuation process across the EU.

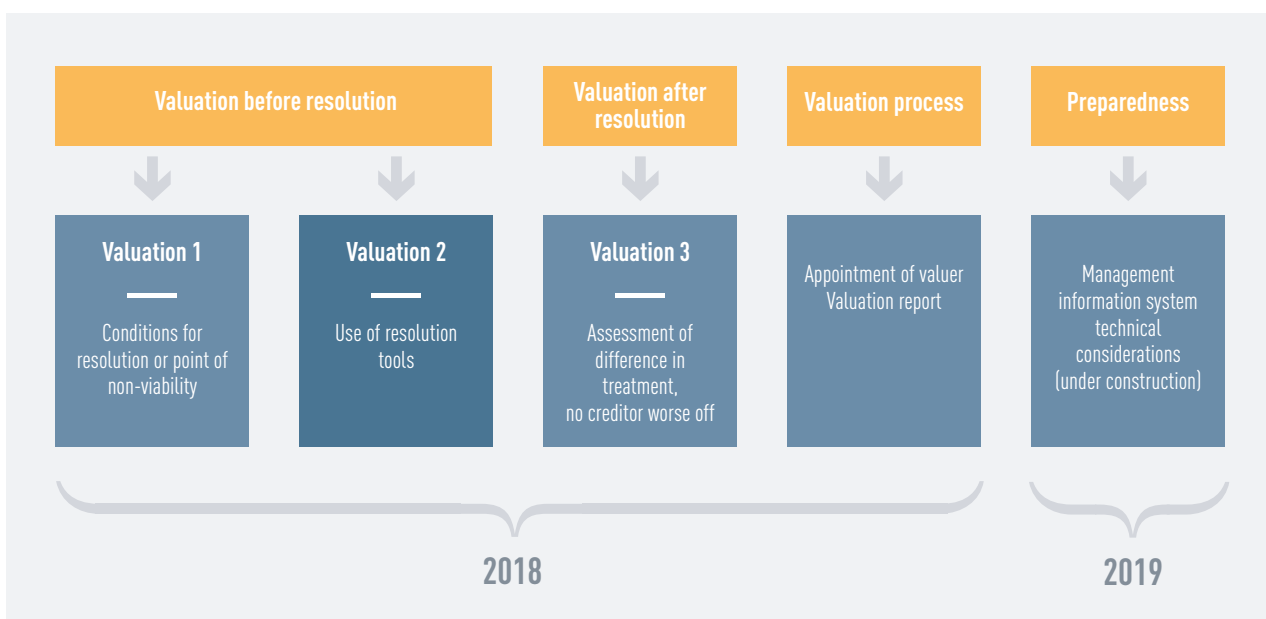
### ONGOING WORK

In 2019, the EBA will continue working on the handbook on valuation, looking at information and data aspects to support valuation, with the aim of increasing institutions' preparedness in this area.

In terms of content, while the handbook covers valuation both before resolution and after resolution (aimed at determining consistency with the no creditor is worse off principle), it focuses mainly on valuation before resolution, which supports the resolution decision, and thus has an immediate impact on shareholders and creditors.

The adoption of the handbook follows the regulatory activity carried out by the EBA in the area of valuation for resolution, resulting in RTS on valuation before resolution, RTS on valuation after resolution, RTS on valuation

Figure 6: Stages of the valuation process



of derivative liabilities for purposes of bail-in and RTS on independent valuers. The aim is to harmonise valuations carried out across the EU, thus supporting uniform resolution practices. The adoption of the handbook was done under Article 29(2) of Regulation (EU) No 1093/2010 establishing the EBA. While it is not binding and does not require the resolution authorities to comply or explain why they do not, the handbook is an instrument intended to promote convergence of approaches, practices and processes.

### **Convergence in resolution approaches focusing on the functioning of colleges and monitoring progress on resolvability across the EU**

The EBA published its first report on the functioning of resolution colleges in July 2018. In line with its mandate to promote the effective and consistent functioning of colleges across the EU, the EBA monitors the activities of colleges established for the resolution planning of large cross-border banking groups. While the EBA has closely monitored colleges from their establishment, this was the first EBA publication on the matter.

The report covers selected colleges from the 2017 resolution cycle but does not capture

resolution planning activities outside resolution colleges. It aims to provide an overview of colleges' work and output, and operational aspects, to identify the progress achieved and the areas for improvement, while increasing transparency for stakeholders.

Overall, the report found that some progress has been achieved since the introduction of the Bank Recovery and Resolution Directive (BRRD) in 2015, especially taking into account that most colleges are only in their second year of operation. Most resolution colleges have now been established as fora for resolution-planning discussion, the level of engagement between authorities has progressively intensified, and clear timelines for reaching joint decisions have been set and mostly complied with.

While the plans are not yet fully finalised, the EBA saw material progress, in particular on the identification of critical functions, operational continuity and access to financial market infrastructures. However, the report also notes limited progress on the removal of impediments — partly because resolution is a complex matter — and further progress will be required to ensure that college members are well prepared to deal with the failure of a cross-border bank.

## **ONGOING WORK**

On the basis of the 2018 findings, and with the objective of contributing to fostering convergence in resolution approaches, over the coming months the EBA will focus on providing support to European authorities on (i) bail-in execution policies, (ii) the interplay between recovery and resolution, and (iii) monitoring the removal of impediments to resolvability.

## Promoting the convergence of supervisory practices

### Supporting better implementation of Pillar 2 in the EU: the EBA Pillar 2 roadmap

In July 2018, the EBA completed an important milestone in its Pillar 2 roadmap, with the publication of a package of three revised guidelines aimed at further enhancing institutions' risk management and convergence in the supervisory review and evaluation process (SREP). The three revised guidelines focus on institutions' management of interest rate risk in the banking book (the IRRBB guidelines) and stress testing (guidelines on institutions' stress testing), and on the common procedures and methodologies for the SREP (SREP guidelines).

#### Update to the SREP guidelines

The SREP guidelines, first published in 2014, introduced a common European framework for the supervisory review and evaluation process that is now well established and in use by competent authorities across the EU. As the framework serves the purpose of ensuring convergence of supervisory practices, a number of updates were deemed necessary to further reinforce it based on the assessment of the actual implementation of the guidelines and in view of global regulatory developments.

The changes introduced in the revised SREP guidelines, published in 2018, do not alter the overall SREP framework and mainly aim to enhance the guidelines and align them with relevant EBA standards and guidelines that came into force after the publication of the original SREP guidelines. The most noticeable change was the introduction of Pillar 2 capital guidance (P2G) into the SREP framework, along with guidance for competent authorities on how to set P2G based on the results of supervisory stress tests. In addition, the requirements on supervisory stress testing were enhanced. Other changes include a clarification of the scoring framework, and checks for consistency with the relevant EBA standards and guidelines, in particular in the areas of internal governance, institution-wide controls and IRRBB.

#### Update to the IRRBB guidelines

IRRBB is an important financial risk for credit institutions, which has traditionally been considered under Pillar 2 and reviewed under SREP. In order to clarify supervisory expectations regarding the management of IRRBB, the EBA revised its 2015 guidelines on the management of IRRBB. The revised IRRBB guidelines, published in July 2018, reflect developments in the BCBS and are the first step in the implementation at the European level of the updated BCBS standards on IRRBB. The revisions are intended to act as a bridge to the requirements that will be incorporated in the CRD V/CRR2 framework.

The most noticeable changes introduced in the revised IRRBB guidelines are the introduction of general expectations on the monitoring of credit spread risk in the banking book, and amendments to the principles for the calculation of the supervisory outlier test. The guidelines also include additional guidance on governance, model validation and IRRBB measurement.

#### Stress testing guidelines

In July 2018, the EBA published revised guidelines on institutions' stress testing to replace the Committee of European Banking Supervisors (CEBS) guidelines published in 2010. The revised guidelines aim to strengthen the convergence of practices in stress testing conducted by institutions across the EU. The guidelines take account of recent developments and lessons learned during previous stress test exercises, covering best practices and additional individual risk areas. The guidelines provide detailed guidance on how institutions should design and conduct a stress testing programme, and they also incorporate a common taxonomy on stress testing.

Among the key updated areas are the importance of governance, data infrastructure, the link between solvency stress tests and liquidity stress tests, proportionality issues, the use of reverse stress testing and the inclusion of additional individual risk areas such as foreign exchange (FX) lending risk, and conduct-re-

lated risk and associated litigation costs. The guidelines aim to strengthen the practices followed by institutions for stress testing across the EU, to ensure consistency with the EBA guidelines on common procedures and methodologies for SREP and to encourage convergence of practices.

### Assessing third country equivalence

The work of the EBA on the assessment of equivalence of third countries focuses on two main areas: the assessment of professional secrecy and confidentiality regimes of third country authorities, and the assessment of the regulatory and supervisory frameworks of third country jurisdictions.

#### Assessment of professional secrecy and confidentiality regimes

The assessment of the equivalence of confidentiality and professional secrecy provisions is crucial for the participation of third country (i.e. non-EU) supervisory authorities in EU colleges of supervisors. Under Article 116(6) of the CRD, third countries' authorities may participate in EU supervisory colleges subject to confidentiality requirements that, in the opinion of all members of the college, are equivalent to those laid out in the CRD. Thus the EBA's assessment provides a common ground for all EU competent authorities to enable them to form an opinion on the equivalence of third country authorities. In 2018, the EBA continued to assess the confidentiality regimes of third country authorities, and this resulted in seven authorities being assessed as equivalent. This assessment was then reflected in an update to the relevant recommendation.<sup>[12]</sup> A positive assessment requires the satisfactory presence of four main factors, which are deemed to be the key features of the CRD confidentiality regime: (i) the notion of confidential information; (ii) the existence of professional secrecy obligations; (iii) restrictions on the use of confidential information; and (iv) restrictions on the transfer of confidential information.

To date, 42 authorities from 24 third country jurisdictions have been assessed as having equivalent confidentiality regimes. Ultimately,

this will facilitate the participation of third country supervisory authorities in supervisory colleges, improve cross-border cooperation and foster consistency in the application of the Union law among colleges of supervisors.

#### Equivalence assessments and engagement with third countries

One of the overarching objectives of the assessment of equivalence of third countries is to promote and strengthen regulatory frameworks and build relationships with supervisors from non-EU countries. Moreover, there is a need to ensure that there is a framework for cooperation and exchange of information between the EBA and third country authorities, as envisaged in Article 55 of the CRD. Therefore, the EBA will aim to strengthen the link between equivalence and engagement with third countries, with the aim of:

- contributing to building close cooperation with non-EU authorities;
- countries to cooperate smoothly and actively during the equivalence assessment;
- enabling the EBA to monitor more efficiently regulatory and supervisory developments.

#### Assessment of regulatory and supervisory framework

The CRR<sup>[13]</sup> specifies that EU institutions can apply to entities located in third countries and to certain categories of exposures the same (more favourable) risk weights that are applied to EU exposures. This preferential treatment is possible only if the third country applies to its institutions a set of prudential, supervisory and regulatory requirements that are at least equivalent to those applied in the EU. Ultimately, the European Commission can adopt an implementing decision<sup>[14]</sup> determining that a third country's supervisory and regulatory requirements are at least equivalent to those applied in the EU.

The EBA was requested by the European Commission to provide its technical advice on the equivalence of the regulatory and supervisory

<sup>[13]</sup> Articles 107(3), 114(7), 115(4), 116(5), 132(3) and 142(2) of the CRR.

<sup>[14]</sup> The most up-to-date implementing decision on the equivalence of prudential regimes is available here: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016D2358&from=EN>

<sup>[12]</sup> <https://eba.europa.eu/regulation-and-policy/colleges-of-supervisors/recommendation-on-the-equivalence-of-confidentiality-regimes>



frameworks of third countries in 2014 and again in 2017. Following the Commission's call for advice, in 2018 the EBA provided its input to the assessment of whether the supervisory and regulatory frameworks of a number of third countries were equivalent to those of the EU.

The topics considered in the assessment of equivalence are wide-ranging, and the assessment takes into account the overall CRD and CRR framework. The first part of the assessment covers prudential supervision and the second part prudential regulatory requirements. The ultimate goal of the assessment is to evaluate the degree of implementation in the third country's regulatory and supervisory frameworks of standards achieving similar outcomes to the EU framework in terms of ensuring (i) effective and adequate protection of investors and consumers of financial services; (ii) the stability and integrity of the domestic financial system; (iii) cooperation between different actors in the financial system, including regulators and supervisors; (iv) independent and effective supervision; and (v) the proper implementation and enforcement of relevant internationally agreed standards, as incorporated into EU legislation.

The assessment was concluded in 2018 and its results have been transmitted to the European Commission for a final evaluation, which will result in an update to the relevant Commission implementing decision on the equivalence of third countries' prudential regimes.

### Assessing convergence of supervisory practices

As established in its founding regulation, the EBA is required to actively foster and promote supervisory convergence across the EU. On an annual basis, the EBA prepares, in accordance with its mandates as set out in its founding regulation and in the CRD, a report on the convergence of supervisory practices.

#### Assessing the convergence of supervisory practices through the monitoring of supervisory colleges

Colleges of supervisors play an important role in the efficient, effective and consistent supervision of financial institutions operating across borders.

In accordance with its founding regulation, the EBA has a leading role in monitoring the efficient, effective and consistent functioning of colleges of supervisors, and in fostering convergence and the consistent application of the Single Rulebook among these colleges. On a yearly basis, the EBA establishes an action plan that is relevant for all colleges (i.e. the closely monitored colleges and the non-closely monitored colleges).

The action plan for 2018, annexed to the 2017 report on supervisory colleges, included the key tasks for colleges in line with Level 1 and Level 2 provisions, an account of the EBA's ap-

Figure 7: Key topics for supervisory attention in 2018



proach to monitoring colleges in 2018 and a list of important topics for supervisory attention in 2018 (Figure 6). Having communicated these key topics, the EBA expected the risks identified at the macro level to be cascaded through college structures to the micro level in a consistent manner across all colleges. In general, in 2018, colleges of supervisors reflected these topics in their interactions and dedicated appropriate attention to these areas of concern.

The EBA's findings, including on supervisory best practices, arising from its monitoring and assessment of the supervisory colleges are summarised in a dedicated annual report, which provides detailed feedback to consolidating and host supervisors about the performance of the colleges they participate in.

In accordance with its means, in 2018 the EBA's participation in meetings and conference calls focused on the closely monitored colleges.

Moreover, the EBA focused less on procedural aspects of the functioning of colleges, which have already reached a relatively high level of maturity over the past couple of years, concentrating instead on the quality of the content of the colleges' deliverables.

Overall, significant improvements have been achieved in the colleges' deliverables. However, further efforts are expected from both home and host supervisors to make group risk/liquidity risk assessment reports more complete and improve capital and liquidity joint decisions. In particular, the EBA observed that, despite discussions within colleges, group risk/liquidity risk assessment reports tend to compile the findings and assessments of the individual competent authorities and do not always provide a real joint assessment of the group-wide risks.

## ONGOING WORK

### Convergence plan to assess the degree of convergence in supervisory practices

For 2019, a convergence plan has been established to assessing the degree of convergence in supervisory practices.

The general idea guiding the EBA when defining the convergence plan is to assess the degree of convergence in supervisory practices through key topics, having regard in particular to key risks as well as to recent developments of the Single Rulebook. The latter include amended supervisory requirements for competent authorities or require attention for a common implementation of their supervision when it comes to requirements addressed to banks.

The list of key topics identified in the 2019 convergence plan includes: (i) internal governance, (ii) ICT risk and operational resilience, (iii) non-performing exposures and (iv) use of the benchmarking exercise for internal models.

The EBA will review the approach applied by competent authorities to monitor and assess these key topics.

### Assessing the convergence of supervisory practices through bilateral convergence visits

In 2018, the EBA continued with the bilateral convergence visits that were first introduced in 2016 to assess the convergence of supervisory practices and that are seen as a mutually beneficial tool for the EBA and the authorities.

While in 2016 and 2017 these visits looked at the application of the SREP guidelines, in 2018, they focused on the continuum between ongoing supervision, recovery and resolution.

In 2018, a good degree of progress was made by the competent authorities in the implementation of the 2014 SREP guidelines and in taking forward the recommendations and observations made by the EBA during the 2016 and 2017 bilateral convergence visits.

Despite the progress achieved, the EBA identified areas of the SREP where authorities still face challenges in relation to convergence, mainly in the areas of the methodologies used for capital adequacy assessments, the articulation of institution-specific additional own funds requirements, and the link between ongoing supervision, early intervention and resolution.

Establishing a continuum between ongoing supervision, recovery and resolution is quite a new consideration given the relative novelty of the BRRD. It is clear that significant benefits for convergence can stem from an analysis of the degree of consistency across the various stages of supervision and resolution.

During the 2018 bilateral convergence visits organised on this topic, the EBA observed, in particular, that authorities have developed internal procedures specifying the approaches to be followed, for instance when determining whether or not an institution is failing or is likely to fail, or when granting waivers or simplified obligations. The implementation of these sets of procedures, which take into account the Single Rulebook, contributes to ensuring the convergence of supervisory practices.

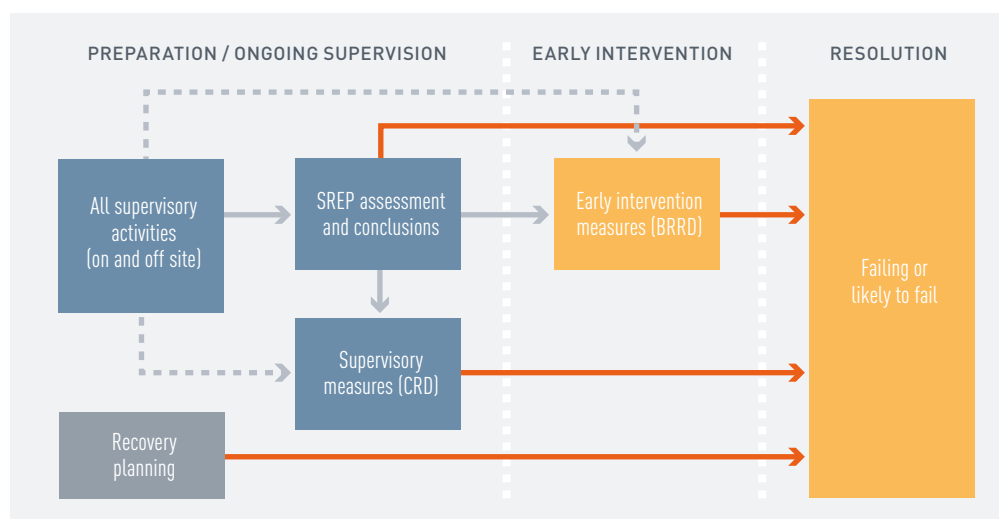
However, key aspects still require improvements. In particular, efforts need to be made to ensure that all the institutions that do not benefit from a waiver have developed a recovery plan. Moreover, the selection and calibration of recovery indicators still have weaknesses that need to be considered and addressed.

### Assessing the convergence of supervisory practices through peer reviews

The EBA conducts, on a regular basis, peer reviews of competent authorities, which are an efficient and effective tool for fostering consistency. The peer reviews aim to assess the implementation and application of EBA guidelines and technical standards.

In 2018, the EBA carried out a peer review to assess the extent to which competent authorities comply with the technical standards on passport notifications. It reviewed competent authorities' practices for managing the passporting process and specifically assessed how

**Figure 8:** The continuum between ongoing supervision, recovery and resolution



## ONGOING WORK

In 2019, the EBA will continue to provide training programmes to competent authorities, thus assisting them in the implementation of important policy products, and will improve its online training platform (the EBA learning hub) by updating current modules and launching new ones.

competent authorities deal with mandatory information from credit institutions. The peer review revealed that competent authorities have overall developed consistent and robust passporting processes to comply with the requirements set out in the technical standards, although the levels of sophistication and the degrees of automation of these processes vary among competent authorities. The peer review also showed inconsistencies in practices relating to the cooperation between competent authorities when dealing with branch or services passport notifications.

### Assessing the convergence of supervisory practices through benchmarking exercises

Progress has been observed in the supervisory use of benchmarking for the ongoing review and the initial authorisation of internal models, as well as on the assessment of remuneration, which benefited from the significant EBA monitoring work on fostering supervisory convergence.

eration, which benefited from the significant EBA monitoring work on fostering supervisory convergence.

### EBA policy work to support convergence of supervisory practices

The EBA has expanded its regulatory framework to promote greater convergence of practices among the competent authorities. In 2017-2018, the EBA completed policy work of the utmost importance and, in particular, finalised guidelines in various areas, for example to reinforce the EU SREP framework and to harmonise institutions' sound governance arrangements.

### EBA training programmes to assist authorities in the implementation of the policy products

Training is an important component in achieving a common supervisory culture and in fostering convergence in supervisory practices.

In 2018, the EBA extended its training programme for competent and resolution authorities, intended to assist in the implementation of important policy products. The EBA held a total of 27 training events for 1 687 attendees in 2018 (compared with 16 training events for 985 attendees in 2017). The 10 events organised in the form of online modules and informational webinars contributed considerably to the expansion of the training programme.

## The results of the EBA's work on convergence of supervisory practices form a feedback loop that informs the EBA's policy work

Policy development in the field of supervisory practices is mostly driven by the EBA addressing supervisory needs and areas where further convergence is needed. The convergence work in general forms an important feedback loop for the policy work. For instance, most of the areas identified as being in need of further progress in the 2016 and 2017 convergence assessments have been covered in the EBA's policy work on Pillar 2, which led to the publication of the revised SREP guidelines in 2018. In the same way, the 2018 bilateral convergence visits, which allowed the EBA to gain a more comprehensive view of how the BRRD framework is applied to less significant institutions, resulted in a feedback loop that will inform its policy work.

In turn, the EBA's policy work identifies priorities for future monitoring and assessment of the convergence of supervisory practices.

**Table 2:** Training events that the EBA provided for EU competent and resolution authorities in 2018

Number	Event	Date	Location	Attendees
1	Supervisory convergence in payment services II (for SCPS members only)	10 January 2018	EBA, London	57
2	EBA/EUI* online module – Supervisory review and evaluation process	5-9 February 2018	Online	79
3	Money remitters	8 February 2018	EBA, London	56
4	Online module – Bank recovery planning	12-22 February 2018	Online	32
5	EBA technical standards under the Payment Accounts Directive – implementation workshop	14 February 2018	EBA, London	23
6	FinTech: challenges for regulators and legal professionals (for ERA and EBA staff only)	15-16 March 2018	EBA, London	83
7	Online module – Supervisory review and evaluation process	19-23 March 2018	Online	52
8	The risk-based approach to anti-money laundering and counter-terrorist financing	20-21 March 2018	EBA, London	80
9	The EBA NPL template	11 April 2018	Webinar	77
10	Supervisory convergence in payment services III – RTS on strong customer authentication (for SCPS members only)	18-19 April 2018	EBA, London	47
11	Regional seminar on Basel III and the CRR/CRD) – finalising post-crisis reforms	15-17 May 2018	EBA, London	51
12	Q&A implementation review	3 August 2018	Webinar	77
13	Supervisory review and evaluation process (for supervisors of the Bank of Moldova only)	20 August-14 September 2018	Online	18
14	Supervisory convergence in payment services IV – focus on application programming interfaces (for SCPS members only)	11 September 2018	EBA, London	59
15	The role of mediation in colleges	19 September 2018	EBA, London	30
16	Supervisory convergence in consumer protection – product oversight and governance and remuneration of sales staff (for SCConFin members only)	20-21 September 2018	EBA, London	31
17	Loss absorption capacity: MREL and total loss absorption capacity	24 September-3 October 2018	Online	57
18	Electronic money and AML/CFT	27 September 2018	EBA, London	80
19	Cross-sector seminar on impact assessment	27 September 2018	EBA, London	35
20	FinTech knowledge: the impact of FinTech on incumbent credit institutions' business models	11 October 2018	Online	220
21	Supervisory convergence in payment services V	16-17 October 2018	EBA, London	66
22	Data analytics and the data point model	7-8 November 2018	EBA, London	78
23	Online module – Supervisory review and evaluation process	1-16 November 2018	Online	80
24	IFRS 9	26-27 November 2018	EBA, London	52
25	Online module on MREL	3-14 December 2018	Online	66
26	Workshop on stress testing	5 December 2018	EBA, London	42
27	Liquidity risk regulation and supervision	5-6 December 2018	EBA, London	59
<b>TOTAL</b>				<b>1 687</b>

\*European University Institute

## Identifying and analysing trends and potential risks and vulnerabilities, and supporting efforts to resolve non-performing loans

### Monitoring and assessing EU banking sector developments

A fundamental role of the EBA is contributing to securing the stability, integrity, transparency and orderly functioning of the EU banking sector. To achieve this, the EBA monitors and assesses market developments in order to identify potential risks and vulnerabilities across banks in Europe. In turn, these analyses trigger policy actions, when deemed necessary.

As a central instrument to monitor the main risks and vulnerabilities of the EU's banking system, the EBA continues to produce its regular **risk assessment report (RAR)**. The 2018 RAR describes the main developments and trends in the EU banking sector since the end of 2017 and sets out the EBA's outlook on the main risks and vulnerabilities. The RAR also serves as an accountability tool, and fulfils the EBA's responsibilities to monitor and assess market developments and provide information to other EU institutions and the general public. The report builds on quantitative data received through supervisory reporting to the EBA on a quarterly basis by competent authorities. For the 2018 report, data were received from a sample of 187 banks from 25 EEA countries (150 banks at the highest EU level of consolidation), covering about 80% of the EU banking sector (based on total assets); these data were supplemented with market data. In addition, the RAR uses qualitative sources of information such as the EBA's RAQ, addressed to banks and market analysts, as well as micro-prudential qualitative information and information from supervisory colleges.

The 2018 RAR acknowledges that the EU banking sector has benefited from the benign macroeconomic and financial environment in the EU and other jurisdictions in recent years. However, increasing geopolitical risks such as trade war, Brexit uncertainty and political tensions within the EU, and the economic deterioration in emerging markets remained key concerns for the sector. Asset quality continued to improve, driven by a reduction in non-performing loan (NPL) stocks in high-NPL

countries. Nonetheless, profitability remained a key concern for the banking sector. In 2018, there was not any significant improvement in profitability, because of increasing competition and low margins, as well as the emergence of FinTech firms, which challenged banks' income streams. Finally, the report suggested that operational risk remained high for the sector due to heightened cyber-risk and conduct risk.

Another important monitoring tool that the EBA uses to identify the main risks and vulnerabilities is the conclusions of the EBA's RAQ. The RAQ is a semi-annual exercise in which the EBA surveys banks and market analysts, and it provides a thorough reflection of market participants' views on current and forthcoming developments in the banking sector. In 2018, the number of banks providing their views through the RAQ increased to 53, covering 25 countries (up from 38 banks covering 17 countries in previous years).

The **quarterly risk dashboard** remained a flagship tool supporting the EBA's regular risk assessment and helping to fulfil its role as a data provider. Throughout 2018, the risk dashboard consistently confirmed, regarding the EU banking system, weighted averages for the CET1 fully loaded ratio of over 14%, a declining NPL ratio of less than 3.5% and subdued profitability hovering around 7%.

When the EBA published data from Q1 2018 in the risk dashboard, it introduced, for the first time, numbers based on IFRS 9 and added one additional jurisdiction (Iceland) to its geographical coverage. To make interpretation easier and to help users understand the calculation of risk indicators, in June 2018 the EBA updated its methodological guide on and list of risk indicators and detailed risk analysis tools. This version of the EBA guide incorporated IFRS 9 developments and made use of the EBA supervisory reporting framework (version 2.7). In a similar vein, the EBA guidance note on compiling International Monetary Fund financial soundness indicators using EBA ITS data was updated in July 2018.

The EBA also relies on market data, market intelligence and supervisory reports to support its board decisions and to provide information to other public authorities. As part of its regular activities, the EBA produces a **weekly overview on liquidity and funding**, including market developments and analysts' views. In addition to this regular assessment, the EBA dedicates additional resources to assess thematic risk reviews, such as banks' funding plans and main trends in asset quality across EU countries.

The EBA continued to monitor the composition of funding sources across the EU through a forward-looking analysis of banks' future funding plans and through its assessment of the level of asset encumbrance. The two reports were published simultaneously in September 2018.

According to the 2018 **funding plan report**, asset deleveraging continued in 2017 as banks' total assets decreased by -1.9% compared with 2016. Nevertheless, banks expect total assets to grow by 6.2% until 2020. The main drivers of asset growth are loans to households and to non-financial counterparties. The funding mix is expected to be dominated by client deposits and long-term debt funding, while the shares of short-term debt and repurchase agreement (repo) funding are expected to fall. A back-testing analysis of 2017 funding plan highlights showed that many

banks missed their own targets (on both assets and liabilities) for 2017 by a large margin. The EBA invited competent authorities to investigate the reasons for divergences between plans and actual implementation and to scrutinise future funding plans.

At the same time, the EBA also published its fourth annual report on **asset encumbrance**. The report contributes to the ongoing monitoring of the composition of funding sources across the EU. The quarterly data for 2017 showed a slight increase in the level of asset encumbrance across the EU compared with 2016 and 2015. Compared with 2016, asset encumbrance increased by 1.3 percentage points to 27.9% in December 2017. While the asset encumbrance ratio has increased steadily since 2014, its recent modest increase is not an issue of immediate concern given the funding structure of EU banks, as it is mostly driven by a reduced volume of total assets as opposed to an increase in encumbered assets. The report acknowledges the relatively high level of geographical dispersion of asset encumbrance. There are particular reasons for this, such as the large and established covered bond markets in specific countries, the high share of central bank funding in the countries severely affected by the sovereign debt crisis, and the relatively high share of repo financing or high collateral requirements for over-the-counter (OTC) derivatives.

## The 2018 EU-wide stress test

In November 2018, the EBA published the results of the 2018 EU-wide stress test, which involved 48 banks from 15 EU and EEA countries, covering broadly 70% of total EU banking sector assets. The objective of the exercise was to assess, in a consistent way, the resilience of banks to a common set of adverse shocks. The stress test exercise is part of the supervisory toolkit used by competent authorities to assess banks' resilience to adverse shocks, identify residual areas of uncertainty and feed into the supervisory decision-making

process that determines appropriate mitigation actions. Moreover, the exercise aims to strengthen market discipline through the publication of consistent and granular data on a bank-by-bank level.

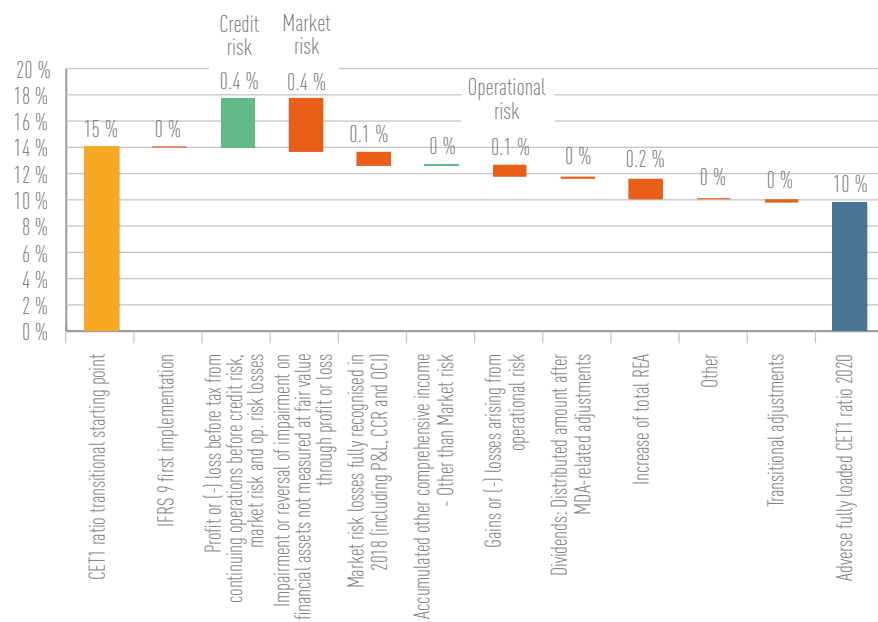
The aggregate impact of the adverse scenario, measured as the difference between the starting CET1 ratios under the IFRS 9 restated positions and the CET1 ratios projected at the end of the stressed period, was -395 bps on a fully loaded basis (-410 bps on a transitional basis). At the end of 2020, in the adverse scenario, banks' aggre-

gate CET1 capital ratio would be 10.1% fully loaded (10.3% transitional).

The overall impact was due to a capital depletion of EUR 226 billion, and to an increase of the total risk exposure amount (REA) of EUR 1,049 billion. Other specific risk drivers contributing to the overall impact on CET1 capital ratio, on a fully loaded basis, include (i) credit risk losses of EUR 358 billion (-425 bps), (ii) conduct risk of EUR 82 billion (-100 bps) and (iii) market risk losses of EUR 94 billion (-110 bps).

Like the previous stress test exercise in 2016, the 2018 EU-wide stress test did not contain a defined pass/fail threshold. However, the exercise is an important supervisory tool and an input for the Pillar 2 assessment of banks. The results of the stress test assist competent authorities in assessing banks' ability to meet applicable prudential requirements under the stress scenario and form a solid basis for discussion between supervisors and individual banks.

**Figure 9:** Contribution of main drivers to the change in CET1 capital ratio from 2017 to 2020 in the adverse scenario (waterfall)





## Contributing to the action plan to tackle non-performing loans in Europe

In 2018, the EBA continued to work with EU authorities and institutions to fulfil the objectives of the Council action plan to tackle NPLs in Europe. The EBA also published its revised NPL transaction templates, having received information on experiences in practice and other feedback from stakeholders, as well as the guidelines on disclosure of non-performing and forborne exposures.

### Guidelines on management of non-performing and forborne exposures

In 2018, NPLs were a priority in the EBA's policy work. The EBA published its guidelines on management of non-performing and forborne exposures, which will be applicable to all credit institutions in the EU from 30 June 2019. Following these guidelines, credit institutions are expected to establish strategies to manage their bad loans effectively. These

guidelines target banks with high non-performing exposures (NPEs) in particular, with the aim of achieving a sustainable reduction in NPEs in order to strengthen the resilience of their balance sheets and support lending to the real economy.

### Disclosures

In December 2018, the EBA published the guidelines on disclosure of non-performing and forborne exposures. The EBA issued these guidelines in response to the Council's July 2017 action plan to tackle NPLs in Europe, and in particular the Council's invitation to implement enhanced disclosure requirements on asset quality and NPLs for all banks. The guidelines include a common set of disclosures applicable to all institutions in the EU. They also include a set of additional disclosures applicable to significant institutions with an NPL ratio at or above a 5% threshold, which should enable a better understanding of the risk profiles of these institutions.



## THE EBA'S WORK ON NPLS

The global financial crisis and subsequent recessions led to a widespread inability on the part of borrowers to pay back their loans, as more people and companies faced significant financial difficulties. High levels of NPLs put strain on banks' profitability and their ability to lend to the real economy.

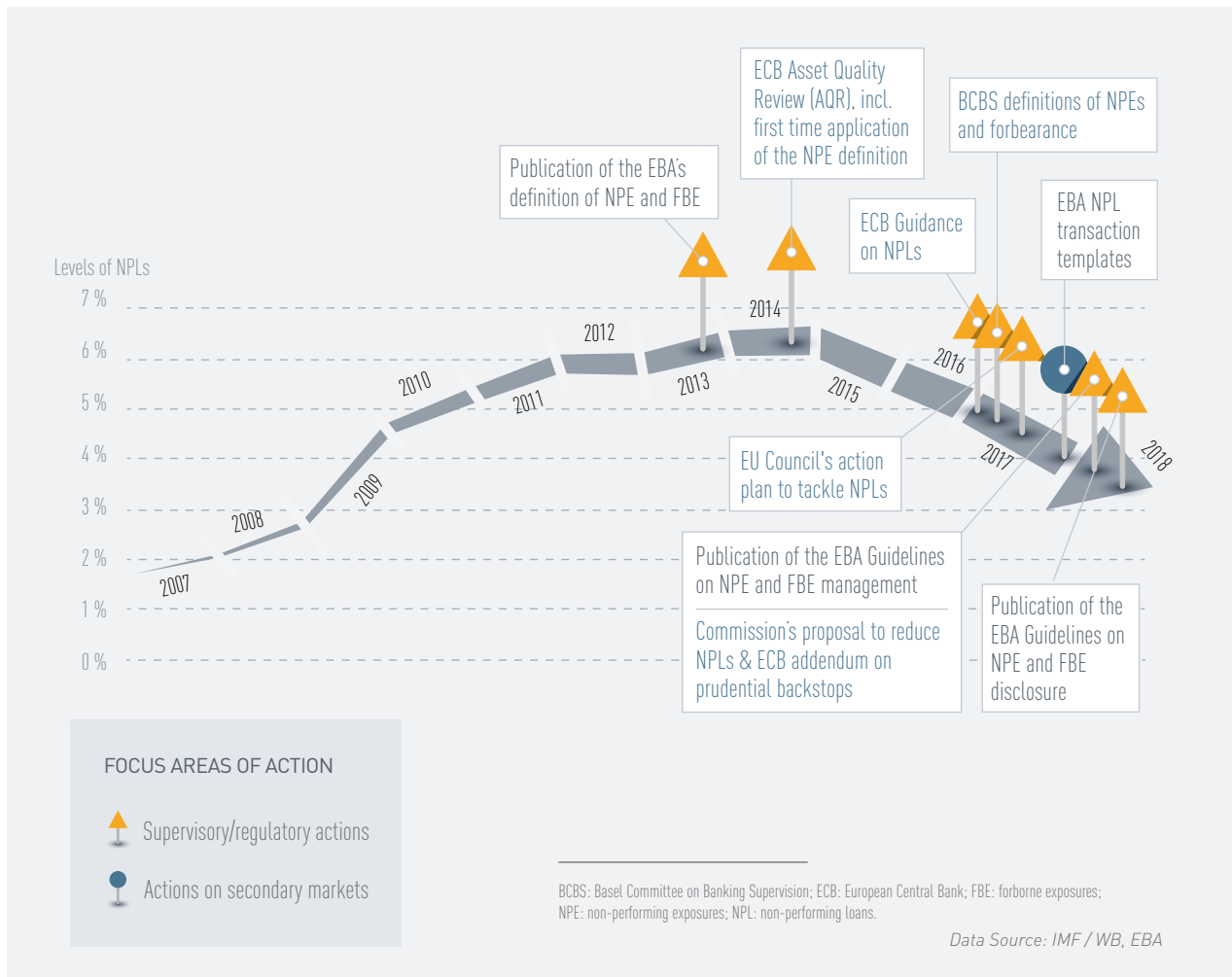
Since then, the reduction of NPLs in Europe has been a major step towards the successful completion of the Banking Union and a priority on the EU policy agenda.

Our long journey towards addressing the issues around NPLs started with the introduction of a common definition of NPLs (October 2013) and accelerated with the Council's action plan (July 2017). The EBA's dedicated team, of which I am a part, developed standards for banks' NPL workout and a recovery framework to reduce bad loans on their balance sheets, as well as to inform their future lending activities. The team also carried out initiatives to improve secondary markets across Europe where banks sell their bad loans to investors.

Working on NPLs has been a challenging but rewarding task. It has helped me acquire strong technical knowledge, having had the opportunity to interact with various stakeholders, not only from the public sector but also including market participants such as banks, investors and servicers of NPLs. I have presented the EBA's work at seminars, conferences and discussions in various, countries covering different parts of the European NPL markets.



Figure 10: NPLs in the EU — on the path to recovery



### Economic analysis and research

With the recent internal reorganisation of the EBA, a new unit within the Economic Analysis and Statistics Department is responsible for coordinating all the EBA's economic analysis and research activities. These include monthly research seminars for EBA staff, the organisation of an annual thematic policy research workshop, and the coordination of the Staff Paper Series.

#### Monthly internal research seminars

In 2018, the EBA launched a series of monthly seminars for EBA staff. External speakers were invited to present and discuss papers in thematic sessions. The analysis and discussions in these events should serve to strengthen the quality of the policy-making process. Among other topics in 2018, par-

ticipants discussed how financial regulation changes banks' behaviour and incentives, the features of the various retail banking business models, crypto-currencies as investments — including risks to consumers and to the wider financial system — and the effect of judicial efficiency on NPLs.

#### 2018 annual policy research workshop

Since 2012, the EBA has organised an annual two-day policy research workshop. This event brings together economists and researchers from supervisory authorities and central banks, as well as leading academics. The objective of the workshop is to foster comprehensive discussion on a selected topic with relevance for the financial sector and the regulatory agenda. The annual process is initiated by the launch of a call for papers, inviting submissions of policy-oriented, preferably

empirical, research papers on topics related to banking regulation and supervision. Researchers are particularly encouraged to submit their papers for presentation and discussion in various thematic sessions.

In November 2018, the EBA organised its seventh policy research workshop, entitled 'Reaping the benefits of an integrated EU banking market'. Promoting financial market integration is a key economic objective on the European agenda. Significant efforts have been made during the past decade in the EU, but more needs to be done to increase the integration of the EU banking market in particular. In the 2018 EBA policy research workshop, the EBA was seeking to explore to what extent, more than 25 years after the Single European Act, the EU has been and will be successful in reaping the benefits of integration. The event provided insights into the shock-absorbing benefits of the Banking Union, not just through official institutions but also through market integration and cross-border banking. The discussion of the development of the EU Single Rulebook highlighted the benefits of convergence on prudential policy but also legal prudential obstacles to the integration of the banking sector in the euro area and a lack of cross-border banking integration. The discussion also provided evidence that fragmentation remains in the consumer and financial services markets, and that the harmonisation of insolvency rules for credit institutions and other entities is necessary to help further integrate and develop the European banking and capital markets.

#### Staff Paper Series

In 2018, the EBA launched the EBA Staff Paper Series (SPS), which provides a platform for EBA staff to disseminate research and thematic analyses to a wider public. The SPS includes selected studies on financial regulation, supervisory policy, and legal issues of general interest, with the aim of stimulating discussion and public debate. The first paper, entitled 'Sharing the pain? Credit supply and real effects of bank bail-ins', by Samuel Da-Rocha Lopes, Thorsten Beck and André Silva, analyses the credit supply and real sector effects of bank bail-ins. The second paper, entitled 'Identification of EU bank business models', by Marina Cernov and Teresa Urbano, puts forward a novel approach to classifying banks in the EU regulatory framework.



The EBA's work is extensive, covering prudential regulation, supervision, consumer protection, resolution and other areas. Such work, which includes research, data collection, analysis and the development of methodologies, has been used in notes and presentations that are used only to inform the supervisory community and to draft regulatory products, or to provide insights to the standing committees on various issues of concern. However, it has been recognised that this work also generates valuable information and interesting implications for future EBA policies and the general policy debate.

The papers in the series describe research in progress by the author(s) and are published to stimulate discussion and contribute to the advancement of the EBA's knowledge of policy, supervision and economic matters, eliciting comments and further debate from a wider public. Even though they do not always directly represent EBA mandates, the numerous areas of banking regulation and oversight that are the focus of research and analysis at the EBA are closely intertwined with the areas covered by the main mandates and provide an opportunity to the staff to engage in financial research. A platform to discuss insights and analyses in the areas of interest also provides a valuable source of ideas and information for both internal and external EBA stakeholders. The platform also serves to test new ideas and methodologies and will make it possible to publish accounts of intermediate steps in analyses that are normally incorporated in larger and more comprehensive reports. The SPS also serves to make available to the public additional insights and analyses based on the EBA's extensive data collections and will foster an internal culture that supports academic thinking, sending a positive message to the public as regards the EBA's working methods.

## Strengthening the EBA's role as the EU data hub for the collection, dissemination and analysis of data on EU banks

### Moving towards greater transparency in data

The EU regulation establishing the EBA states that the Authority must protect the public interest by, inter alia, 'ensuring that financial markets are transparent and well-functioning'. To achieve this objective, the EBA acknowledges that it has to make the most of its role as a privileged data compiler; however, more importantly, it must capitalise on its role as a key data provider that sheds light on the health and activities of the EU banking landscape. In addition, by continuing to promote and support the exchange of information among EU supervisors, in the context of the MoU on sharing data belonging to individual banks, the EBA significantly contributes to increasing the comparability of a set of risk indicators for around 200 banks across Europe.

The EBA has been focusing on enhancing the ways in which it publishes the rich data set on the largest EU banks' activity, by developing specific analytical tools, by helping national supervisors to create their own dashboards and by providing specific training on supervisory reporting and the EBA's ITS data. In addition, easy-to-use tools for all types of audiences have been shared on the EBA's website, on several different topics and risk areas. The EBA, therefore, continues to consider meaningful data disclosures across Europe to be crucial, often taking world-leading, pioneering steps in terms of the level of disclosure of data on the banking sector.

For the fifth consecutive year, the EBA published information on indicators of global systemic importance. This information is a further step towards improving the general public understanding of systematically important institutions, and their key figures and business activities. The EBA also updated the published list of other systemically important institutions. Because of their systemic importance, these institutions are more likely to give rise to risks to financial stability, potentially conveying negative spillovers and externalities into the system. Therefore, supervisors or macroprudential authorities may ask that these institutions maintain an additional capital buffer. By publishing and maintaining this list, the EBA provides essential information to market participants and the wider public.

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

In 2018, the EBA received a call for advice from the European Commission about the implementation of the final aspects and agreement of Basel III into EU law, many of which required changes to the CRD and the CRR. Until June 2018, the EBA had based its regular monitoring exercises on the similar exercise carried out by the Bank for International Settlements (BIS) for the BCBS in order to gain an understanding of the state of play of Basel standards implementation in the EU and around the globe.

The coordination role at the EU level for such exercises was, until 2018, undertaken jointly by the EBA and the Deutsche Bundesbank. Since the Q2 2018 monitoring exercise, after a smooth transition, the EBA has been coordinating these monitoring exercises on its own. With a view to preparing technical advice on the impact and implementation of international standards in the EU for the European Commission, the EBA launched a data collection exercise in the summer of 2018, in parallel with the regular data collection for the Basel

## ONGOING WORK

A similar solution to facilitate data transmission from national supervisors to the EBA during the Basel monitoring exercises will be assessed in the course of 2019, with a view to implementing it in the near future. In the future, the EBA will be also exploring ways of facilitating analysis of the transparency data.

monitoring exercise with the reference date of Q2 2018. The EBA aligned this one-off exercise requested by the European Commission with the regular Basel monitoring exercise. The EBA also decided to extend the sample of banks contributing to the regular Basel monitoring exercise, in order to be able to advise legislators on how to implement the Basel reform in accordance with the principle of proportionality. The sample will be at least 50% larger than in the regular monitoring exercises and will cover more than 210 institutions, instead of around 135.

To facilitate data transmissions to the BIS, also in the context of the regular Basel monitoring exercises, the EBA worked on an API (application programming interface) solution that introduces fully automatic transmissions between the two organisations, within a very secure digital environment. While the final delivery of this solution did not occur until the end of 2018, its deployment was finalised during the first weeks of 2019.

As in previous years, in 2018 the EBA published its two semi-annual analyses of the impact of CRD IV CRR/Basel III rules on European credit institutions' capital, liquidity and leverage ratios, and the estimated shortfalls resulting from a lack of convergence with the fully implemented framework (in March for data as at June 2017, and in September for data as at December 2017). In addition, the EBA updated its cumulative analysis impact assessment report to evaluate the effect of the final Basel III reform package on EU banks. The cumulative ad hoc impact assessment report contained a breakdown of the impact on the total minimum required capital that arises from credit risk (IRB approach and standardised approach), operational risk, leverage ratio reforms and the output floor of 72.5%.

The EBA also made available, along with the transparency exercise data, a set of data tools, which allows users to explore comparable bank-by-bank figures through maps and analytical Excel tools.

### EUCLID and the EBA's registers

European Centralised Infrastructure for Supervisory Data (EUCLID) is a new data platform that will allow the EBA to collect data from the EEA competent authorities for all



credit institutions in the area. This means the sample of institutions for which the EBA collects data will be expanded from around 200 of the largest institutions in the EEA to the full universe of credit institutions and banking groups in the EEA.

The first step has been the set-up of a new platform to collect the master data for all institutions. This will serve two main purposes. One of the main functions of the entire project will be to use the data collected to keep the EBA's public registers, such as the Credit Institutions Register and the Payment Institutions Register, updated. The other aim of the platform is to use the data received to determine the reporting obligations for the collection of supervisory data.

Aligning and simplifying the collection of master data for those two purposes, which has until now been done through separate channels, will also result in an improved level of data quality, due to a variety of checks automatically applied to the data submitted. In addition, there will be a significant reduction in the reporting burden for the competent authorities, with the discontinuation of double reporting, and greater efficiency, with the move from manual to automated data submission.

To ensure the platform specifications and reporting processes support efficient reporting in the EEA as a whole as much as possible, the EBA has consulted the national competent authorities and the European Central Bank (ECB), which already collect most of this information for the euro area. To estab-

lish efficient cooperation, a task force on EU-CLID implementation has been set up with a view to supporting the smooth, timely and cost-effective implementation of EUCLID, in particular concerning the data management procedures for the submission of master data and supervisory reporting data through EUCLID. For the euro area, a specific and key objective is an efficient data management procedure applied by the EBA, the ECB and the national competent authorities.

Work has been ongoing on building the EU-CLID master data platform throughout 2018, with the involvement of a number of teams within the EBA in addition to the support provided by the competent authorities. This will be concluded in April 2019 with both the Payment Institutions Register and the Credit Institutions Register going live, allowing the collection of data from all EEA competent authorities. Supervisors, analysts and the public can use these registers to check the status and details of credit and payment institutions, thus providing powerful and easy-to-use tools for a wide range of users and supporting the EBA's objective of increasing the transparency of the EEA banking system.

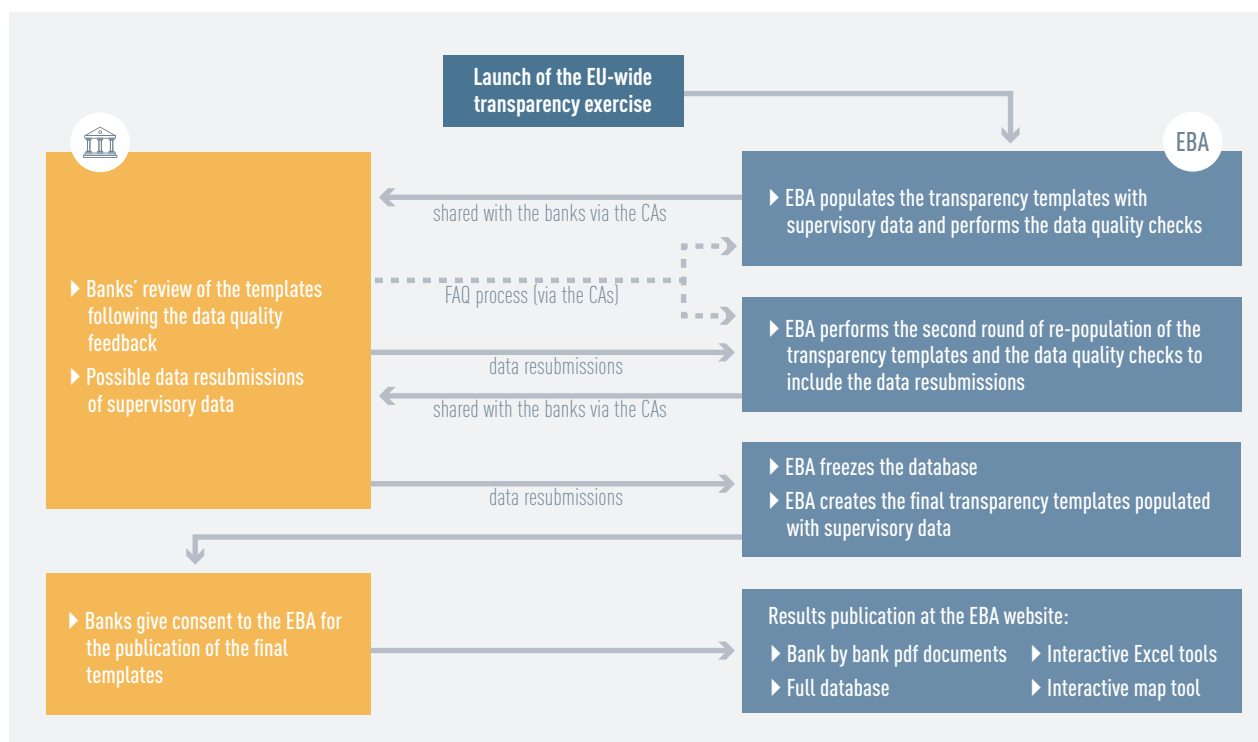
### The 2018 EU-wide transparency exercise

The EBA conducted its latest EU-wide transparency exercise during the second half of 2018.

The transparency exercise, which has been carried out by the EBA since 2011, aims to promote market discipline and foster consistency in EU banks' figures.

The 2018 exercise relied solely on supervisory reporting data (financial reporting (FINREP) and common reporting (COREP)). Data from 130 banks from 25 EU Member States and EEA countries were included. The EBA carried out the data processing and disclosure of figures in cooperation with competent authorities. During the 2018 exercise, EBA received and published on average more than 7 000 data points per bank. The data published in the transparency templates covered several areas such as capital, leverage ratio, REAs, profit and loss (P&L), market risk, securitisation, credit risk, sovereign exposures, NPEs and FBEs. The templates had, in general, a similar structure to those used in previous years, with some revisions of the mapping for the supervisory reporting due to the introduction of the new accounting framework (IFRS 9).

Figure 11: How the transparency exercise works





**Joanna Cinal**

STATISTICIAN



## EU-WIDE TRANSPARENCY EXERCISE

Enhancing the transparency of the European banking sector through disclosing individual data on EU and EEA banks is one of the main objectives of the EU-wide transparency exercise conducted by the EBA on an annual basis. The results, based on supervisory reporting, cover information on banks' exposures, capital positions and asset quality.

The transparency exercise is led by the Statistics Unit at the EBA, with the close cooperation of the competent authorities. The exercise is launched in autumn each year, with the publication date at the end of the year. During this period, banks receive the transparency templates, populated by the EBA with the supervisory data, together with the data quality checks. Before giving consent for publication, banks can resubmit the supervisory data, which is crucial for ensuring the high quality of the results. As a statistician, I am involved in each stage of the exercise. I work on the data set processing and the development of the data exploration tools, as well as on the coordination of the process and on publication. I find my role very stimulating and interesting because of its diversity.

I recognise the importance of the transparency exercise, as the results are widely used both by academics and by analysts from the industry. Interest in the transparency data clearly demonstrates the EBA's contribution to analysis of the European banking sector.



The transparency exercise results are extensively used by banks, market analysts, academics, international organisations and journalists for their assessments of the EU banking sector. To facilitate analysis of the transparency figures, the EBA has made available, along with the individual banks' results and the full database, a set of interactive tools to access the data. Excel interactive tools and an interactive map tool containing consistent figures, both individual and aggregated by country, are available at the EBA website.

The 2018 EU-wide transparency exercise was conducted alongside the 2018 EU-wide stress test, with the timelines of the exercises being coordinated to reduce the burden for banks and supervisors.

### Enhancing and maintaining the supervisory and resolution reporting framework

Reliable data are crucial to understand institutions' financial situation, assess risk profiles and identify risks for financial stability, and to understand the financial, legal and technical challenges and impediments to resolving institutions that fail or are likely to fail. With a view to providing supervisory authorities and authorities in charge of resolution with this reliable data, the EBA has updated several of its reporting standards and the corresponding technical components (the data point model (DPM), validation rules, the eXtensible Business Reporting Language (XBRL) taxonomy) to keep them fit for purpose. In addition, with a view to reducing the reporting burden, the EBA worked for the first time on integrating the reporting and disclosure requirements.



In April 2018, reporting framework v. 2.8 was published, which applied from 31 December. For the first time, this framework included not only supervisory data — such as COREP data, FINREP data or data for the purpose of benchmarking internal models — but also data for resolution planning purposes, collected by resolution authorities throughout Europe.

In August 2018, the EBA launched three consultation papers — on FINREP, the liquidity coverage ratio (LCR) and securitisations (COREP) — relating to amendments to Regulation (EU) No 680/2014 (ITS on supervisory reporting). These changes will be included in the reporting framework release v. 2.9, with 31 March 2020 being the first reporting reference date for FINREP and securitisations (COREP), and 30 April 2020 being the date for LCR reporting.

#### Supervisory reporting amendments with regard to FINREP

The main changes to FINREP relate to amended and new reporting requirements on non-performing and forborne exposures and collateral obtained by taking possession, aimed at strengthening supervisors' ability to assess and monitor these exposures. Proportionality has been taken into account by splitting the proposal into two modules: one applies to all report-

ing institutions and the other — which includes more granular information — applies only to reporting institutions with high NPL ratios.

In addition, the proposal contains amendments to reporting on some profit or loss items, in particular on operating and administrative expenses, in order to allow supervisors to perform an in-depth analysis on reporting institutions' cost structures and on the impact of remuneration policies.

Finally, minor changes concern new data requests on leases due to the entry into force of the new International Financial Reporting Standard on leases (IFRS 16). The changes aim to enable supervisors to obtain a complete view of the main impacts on lessees' financial situation and profit or loss.

#### Supervisory reporting amendments with regard to the LCR

The main changes to LCR reporting derive from Commission Delegated Regulation (EU) 2018/1620 of 13 July 2018 amending Delegated Regulation (EU) 2015/61 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for credit institutions.



This LCR amending act triggered some changes in the calculation of the LCR that called for a subsequent update to the ITS on LCR reporting to capture the necessary elements for its calculation and monitoring. These mainly relate to the calculation of inflows and outflows in securities financing transactions (SFTs) and collateral swaps, or the unwind waivers envisaged for some SFTs and collateral swaps with central banks.

#### Supervisory reporting amendments with regard to COREP

The main changes to COREP relate to securitisations, as there is a new EU securitisation framework, which came into force in January 2018. This includes the Securitisation Regulation (Regulation (EU) No 2017/2402) and Regulation (EU) No 2017/2401 amending the CRR, containing targeted amendments to the CRR with regard to securitisation, which together aim to build and maintain a sound and safe securitisation market in the EU.

The ITS on supervisory reporting were amended to integrate the changes resulting from the new securitisations framework and, at the same time, to foster consistency between reporting and disclosure requirements.

#### Improving digital data reporting through a common data dictionary

The EBA continued to play an important role in promoting a consistent and integrated framework for digital regulatory reporting. The EBA DPM data dictionary continues to incorporate incrementally all the data definitions created under the EBA regulatory harmonised framework and, since 2018, includes also the Single Resolution Board (SRB) resolution data reporting requirements for European banks.

The EBA continued to enhance its DPM data dictionary by developing specific tools to promote transparency and help banks, authori-

ties and other stakeholders involved in digital regulatory reporting to access the formal and explicit definition of the complete list of data concepts (data points) included in the harmonised reporting.

#### Implementing technical standards on procedures, forms and templates for resolution planning

In order to support effective cooperation and the drawing up of resolution plans, the EBA is required under Article 11(3) of the BRRD to develop draft ITS to specify procedures and a minimum set of standard forms and templates for the provision of information necessary to draw up and implement resolution plans.

The EBA ITS on resolution planning were revised to cover all aspects and adopted in October 2018 as Implementing Regulation (EU) 2018/1624 replacing Regulation (EU) 2016/1066, with the new framework entering into force for the collection of information with the reference date 31 December 2018.

The mandate provided by the BRRD is, however, a minimum harmonisation mandate. As a result, the revised ITS establish a minimum set of information as well as providing for additional information to be supplied if this is required by the competent authorities. This information is to be reported by all credit institutions, as well as investment firms and other entities included in the scope of the BRRD, to competent authorities.

According to the ITS, templates must be collected by resolution authorities on an annual basis. This frequency ties in with the obligation for resolution authorities to review, and where appropriate update, resolution plans at least annually and after any material changes.

The new ITS on reporting for resolution plans updated the resolution reporting framework in line with techniques in use in the supervisory reporting area.

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

### Financial innovation

#### The EBA FinTech roadmap — monitoring financial innovation

In the light of the feedback on the EBA's 2017 discussion paper on FinTech<sup>(15)</sup> and the new mandates set out for the EBA in the European Commission's FinTech action plan,<sup>(16)</sup> the EBA published in March 2018 its FinTech roadmap, describing the next steps in its work, the indicative milestones and priorities for 2018/19, and providing an indicative timeline for the completion of these tasks.

In summary, these priorities relate to FinTech and the regulatory perimeter, emerging trends, business models, prudential risks and

opportunities, cybersecurity, consumer issues and money laundering/terrorist financing (ML/TF) risks.

In line with the EBA FinTech roadmap, a number of products were published in 2018, in relation to the revised Payment Services Directive (PSD2), crypto-assets, innovation facilitators, impact on business models and prudential risks, as described in more detail below.

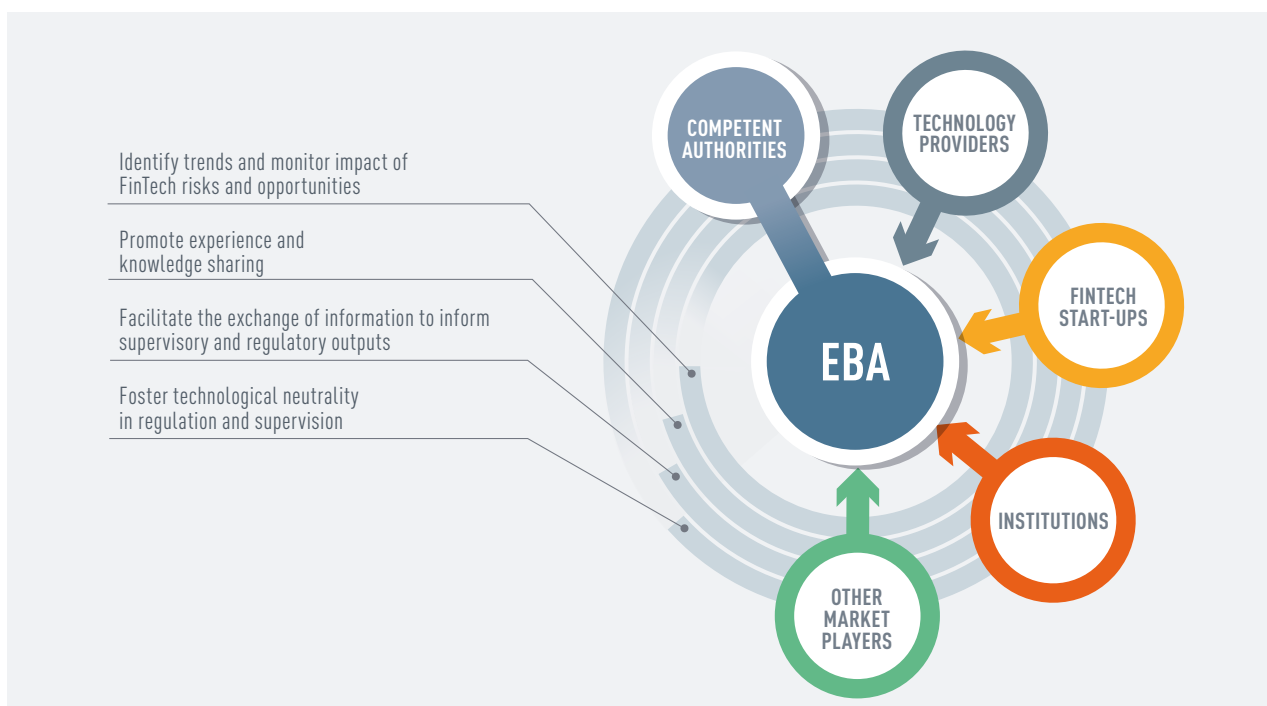
### ONGOING WORK

The EBA will continue to engage in relevant international initiatives to promote supervisory and regulatory consistency in responding to new and borderless technologies. .

<sup>(15)</sup> <https://eba.europa.eu/-/eba-publishes-a-discussion-paper-on-its-approach-to-fintech>

<sup>(16)</sup> [https://ec.europa.eu/info/publications/180308-action-plan-fintech\\_en](https://ec.europa.eu/info/publications/180308-action-plan-fintech_en)

Figure 12: EBA FinTech Knowledge Hub





**Andreas Papaetis**

POLICY EXPERT



## FINTECH

While the EBA has been working on financial innovation since its inception, the EBA FinTech roadmap, published in March 2018, set out the EBA's journey into the FinTech world, putting in place a number of priorities for the next few years and establishing the EBA FinTech Knowledge Hub.

In terms of regulatory products, in 2018 our work focused on mandates from the European Commission FinTech action plan and PSD2. In addition, I feel lucky I had the opportunity to lead on a number of thematic reports describing the current landscape around FinTech and shaping the path for potential regulatory and supervisory approaches on FinTech-related areas.

As a coordinating member of the EBA FinTech Knowledge Hub, I am proud to have contributed to the successful launch and productive start of the hub, along with the organisation of a number of industry events aligned with the EBA's priority topics, such as APIs, cloud outsourcing and innovation facilitators, leveraging knowledge and expertise from the participants in the hub.

Due to the fast pace of developments in the FinTech area, the EBA is engaging closely with the industry and, through this engagement, I had the chance to discuss and exchange views with institutions, technology providers, FinTech firms and academics on interesting, innovative topics, with the aim of keeping pace with the technological developments and supporting the regulatory and supervisory community.

Through this interaction with the industry, the EBA decided to take a closer look in 2019 at the use of big data and data analytics, an exciting area on which I am currently working, aiming to establish a foundation for more informed decisions in the future.



### Crypto-assets

Further to the EBA's March 2018 FinTech roadmap, in December 2018 the EBA concluded its work on a report on crypto-assets responding to the call from the European Commission for an analysis of the applicability and suitability of current EU law with regard to crypto-assets. ESMA published at the same time its advice on initial coin offerings and crypto-assets.<sup>[17]</sup>

The EBA's report sets out the results of its assessment of the types of crypto-asset activities under way in the EU and regulatory and

supervisory issues, building on the EBA's previous work in relation to virtual currencies.<sup>[18]</sup>

The EBA concluded that crypto-asset activities in the EU are relatively limited and do not appear to give rise to implications for financial stability at this stage. However, typically, crypto-asset activities do not constitute regulated financial services within the scope of EU banking, payments and e-money laws. As a result, risks arising from these activities are not treated in a common way across the

<sup>[17]</sup> [https://www.esma.europa.eu/sites/default/files/library/esma50-157-1391\\_crypto\\_advice.pdf](https://www.esma.europa.eu/sites/default/files/library/esma50-157-1391_crypto_advice.pdf)

<sup>[18]</sup> The EBA's publications in relation to virtual currencies can be accessed via the EBA's FinTech Knowledge Hub: <https://eba.europa.eu/financial-innovation-and-fintech/publications-on-financial-innovation>

EU and emerging national initiatives have the potential to present further risks to the level playing field.

The EBA also reiterated specific risks relating to custodian wallet provision, crypto-asset trading platforms and gaps in the anti-money laundering and countering the financing of terrorism (AML/CFT) framework, in particular with respect to crypto-to-crypto exchanges.

In view of the issues identified, the EBA set out in the report advice for the European Commission regarding the need for a comprehensive cost-benefit analysis, taking account of issues inside and outside the financial sector, to determine what, if any, action is required at the EU level at this stage. The EBA also advised the European Commission to take account of the October 2018 recommendations of the Financial Action Task Force<sup>(19)</sup> (and any further standards or guidance) regarding, in their terminology, 'virtual asset' activities, and to take steps where possible to promote consistency in the accounting treatment of crypto-assets.

Finally, the EBA identified a number of actions that it will take in 2019, in particular to strengthen monitoring practices regarding the crypto-asset activities of banks, investment firms, payment institutions and electronic money institutions, and to assess consumer-facing disclosure practices.

### Innovation facilitators

Building on work carried out in the course of 2018, the European Supervisory Authorities (ESAs) finalised a joint report setting out a comparative analysis of innovation facilitators (regulatory sandboxes and innovation hubs) established by competent authorities, a set of best practices for their design and operation, and options to enhance cooperation and coordination between facilitators.<sup>(20)</sup>

In broad terms, innovation facilitators are designed to promote greater engagement between competent authorities and firms on financial innovations, with a view to enhancing firms' understanding of regulatory and supervisory expectations and increasing the

knowledge of competent authorities about innovations and the opportunities and risks they present. Two main categories of innovation facilitator can be identified:

- **innovation hubs**, which provide a dedicated point of contact for firms to raise enquiries with competent authorities on FinTech-related issues and to seek non-binding guidance on the conformity of innovative financial products, financial services or business models with licensing or registration requirements and regulatory and supervisory expectations;
- **regulatory sandboxes**, which provide a scheme to enable firms to test, pursuant to a specific testing plan agreed and monitored by a dedicated function of the competent authority, innovative financial products, financial services or business models.<sup>(21)</sup>

Innovation facilitators have grown rapidly in popularity over recent years, with the ESAs identifying in the report 23 innovation hubs in EU and EEA states and 5 regulatory sandboxes in EU states that were operational at the time of publication. On the whole, innovation hubs and regulatory sandboxes (comparing like-for-like) are broadly similar. The ESAs' report identified a set of best practices for the design and operation of innovation facilitators in order to promote consistency, for instance on the scope of innovation facilitators and transparency in terms of outcomes. The ESAs also identified options to enhance coordination and cooperation between innovation facilitators, including the establishment of an EU network as a platform to facilitate authorities in reaching common approaches to regulatory and supervisory issues on the treatment of financial innovations. This could promote greater convergence and support scaling up (with firms receiving, as a result of network discussions, coordinated responses). The ESAs will explore the options available for enhancing cross-border coordination and cooperation between national innovation facilitators, in conjunction with the European Commission's and the ESAs' further work on FinTech, and define further steps, as appropriate, in 2019.

<sup>(19)</sup> <http://www.fatf-gafi.org/publications/fatfrecommendations/documents/regulation-virtual-assets.html>

<sup>(20)</sup> <https://eba.europa.eu/-/esas-publish-joint-report-on-regulatory-sandboxes-and-innovation-hubs>

<sup>(21)</sup> Sandboxes may also imply the use of legally provided discretions authorised by the relevant supervisor (with use depending on the relevant applicable EU and national laws), but sandboxes do not entail the disapplication of regulatory requirements that must be applied as a result of EU law.

## Changes in credit institutions' business models, prudential risks and opportunities

In line with the priorities set out in its roadmap, the EBA published in July 2018 two thematic reports: (i) a thematic report on the impact of FinTech on incumbent credit institutions' business models<sup>[22]</sup> and (ii) a thematic report on the prudential risks and opportunities arising for institutions from FinTech.<sup>[23]</sup>

Both reports aim to raise awareness within the supervisory community and the industry on potential prudential risks and opportunities stemming from current and potential FinTech applications and to offer an insight into the main trends that could affect incumbents' business models and pose potential challenges to their sustainability.

The first report identified customer expectations and behaviour, profitability concerns, increased competition and the regulatory framework as the main drivers behind changes in incumbents' business models. Partnerships with non-bank FinTech firms were found to be incumbents' predominant type of engagement (described as 'win-win' situation). Moreover, the following five factors were identified as the most significant for the sustainability of incumbents' business models: (i) digitalisation/innovation strategies pursued to keep up with the fast-changing environment, (ii) challenges arising from legacy ICT systems, (iii) operational capacity to implement the necessary changes, (iv) concerns over retaining and attracting staff, and (v) increasing risk of competition from peers and other entities. Incumbents were categorised into (i) proactive/front-runners, (ii) reactive and (iii) passive in terms of the level of adoption of innovative technologies and overall engagement with FinTech. The report notes that potential risks may arise both for incumbents that are not able to react adequately and in a timely manner, remaining passive observers, and for aggressive front-runners that alter their business models without a clear strategic objective backed by appropriate governance, operational and technical changes.

<sup>[22]</sup> <https://eba.europa.eu/documents/10180/2270909/Report+on+the+impact+of+Fintech+on+incumbent+credit+institutions%27%20business+models.pdf>

<sup>[23]</sup> <https://eba.europa.eu/documents/10180/2270909/Report+on+prudential+risks+and+opportunities+arising+for+institutions+from+FinTech.pdf>

As part of the activities of the EBA FinTech Knowledge Hub, the EBA hosted a public webinar in October 2018 to present the key findings and observations of its thematic report on the impact of FinTech on incumbents' business models.

The second report assessed seven possible use cases where new technologies such as distributed ledger technology and machine learning are applied or considered to be applied to existing financial processes, procedures and services. No significant implementation of sophisticated technologies was yet observed by institutions, possibly because of security concerns and uncertainty over the substance of FinTech developments. From a prudential risk perspective, a growing shift towards operational risk was noted, mainly due to the accentuation of ICT risks as institutions move towards more technology-based solutions. Dependencies on third-party providers, heightened legal and compliance risks and negative impact on conduct risk also add to the overall increased operational risk. The potential efficiency gains and improved customer experience are currently the predominant opportunities, while changing customer behaviour is an important factor triggering institutions' interest in FinTech. However, most use cases were not yet fully implemented, and therefore discussions and analyses are expected to continue to shape the approach and implementation followed by institutions.

## Outsourcing to the cloud

Following the publication of the EBA's recommendations on outsourcing to cloud service providers in December 2017,<sup>[24]</sup> monitoring and promoting the safe use of cloud services in the banking sector has remained a priority for the EBA during 2018. While competent authorities implemented the recommendations following the application date of 1 July 2018, the EBA reviewed the European Commission's request for further work on banks' use of the cloud, made in its FinTech action plan, and held a workshop in October 2018 to review the implementation of the recommendations. With regard to the European Commission's request regarding the development of guidelines on outsourcing to cloud service providers, the

<sup>[24]</sup> <https://eba.europa.eu/regulation-and-policy/internal-governance/recommendations-on-outsourcing-to-cloud-service-providers>

## ONGOING WORK

In 2019, the EBA will continue delivering on its FinTech roadmap priorities, including in the context of its ongoing monitoring of financial innovation. It will continue monitoring the impact on institutions' business models of FinTech and consider expanding the focus of the analysis to cover the wider FinTech ecosystem.

EBA published a consultation paper on guidelines on outsourcing arrangements that incorporate the recommendations on outsourcing to cloud service providers. Meanwhile, the EBA workshop brought together institutions, cloud service providers and national supervisors to discuss the benefits and challenges arising from the recommendations.

### Anti-money laundering and countering the financing of terrorism

The EBA has worked together with ESMA and the European Insurance and Occupational Pensions Authority (EIOPA) on developing a framework aimed at improving the effectiveness of AML/CFT supervision across the EU and strengthening cooperation and information exchange between national supervisory authorities, both domestically and across borders.

In the context of widespread reports of alleged money laundering breaches by a number of credit institutions in the EU, the EBA used its statutory powers to start preliminary inquiries and subsequently begin investigations into potential breaches of Union law by two supervisory authorities in Malta. In July 2018, the EBA concluded that the Financial Intelligence Analysis Unit (FIAU), which is the competent authority in Malta responsible for supervising financial institutions' compliance with their AML/CFT obligations, had failed to supervise effectively the high-risk bank Pilatus and therefore was in breach of the 3rd Anti Money-Laundering Directive (AMLD3). The EBA recommended that the FIAU should enhance its ML/TF risk assessment of the financial sector; establish a clear supervisory strategy; implement robust supervisory procedures; improve its decision-making processes; and review its sanctioning procedures. Since the

publication of these recommendations, the FIAU has provided regular updates to the EBA on the progress made towards implementing the recommendations. With regard to the Malta Financial Services Authority (MFSA), which is the competent authority responsible for supervising compliance with prudential requirements, and in spite of serious concerns about the adequacy and effectiveness of the MFSA's approach to supervision, the EBA arrived at the view that there was not enough evidence to conclude that Union law had been breached. Separately, the EBA also launched initial inquiries regarding potential breaches of Union law by supervisory authorities in Denmark, Estonia and Latvia.

The EBA continued to raise awareness of ML/TF risks present in the banking sector, and expressed its views on how the supervision of the sector could be enhanced through various speaking engagements and publications. In particular, the EBA was asked to participate in a hearing in the European Parliament, which specifically focused on how to combat money-laundering in the EU banking system.

Finally, the EBA ensured that AML-specific issues were appropriately reflected in the EBA FinTech roadmap.

## Consumer and depositor protection

### Protecting consumers

The EBA's work on consumer protection is aimed at reducing the extent of detriment that can arise when consumers purchase retail banking products and services. In March 2018, the EBA published its first financial education report, which was the EBA's first publication in fulfilment of its mandate to review and coordinate financial literacy and education initiatives by the competent authorities. The report is based on a repository that is held at the EBA and which consists of 84 financial education initiatives that were taken by the national authorities responsible for supervising the financial services and products that are within the EBA's scope of action in relation to consumer protection.

In July 2018, the EBA updated the existing Joint Committee guidelines on complaints-handling such that the scope of the application of the guidelines was extended to actors

newly regulated under the Mortgage Credit Directive (MCD) and under PSD2. More specifically, in the former case, these are mortgage credit intermediaries and non-bank mortgage credit providers; in the latter case, they are certain account information service providers and payment initiation service providers.

In addition, in December 2018, the EBA published a report on the costs and performance of structured deposits in the EU. The report was in response to a formal request by the European Commission. The EBA conducted a thorough analysis of the market for structured deposits in the EU and concluded that, based on information provided by national authorities and other sources, the market appears to be limited in size and that data on costs and performance are not widely available. The EBA also set out steps that it will take to obtain more accurate and standardised data in response to any future requests that it may receive from the Commission.

Finally, the EBA continued its efforts to contribute to supervisory convergence in the area of consumer protection requirements across the EU. The EBA focused, in particular, on its guidelines on product oversight and governance, with a view to ensuring consistency in their interpretation and implementation across the EU. In addition, the EBA, together with the European Commission, conducted work under the Payments Account Directive aiming to achieve consistency across the EU on the national lists of the most common services linked to a payment account. The EBA also provided clarification on a number of requirements in the ITS regarding the fee information document and the statement of fees.

### Protecting depositors

In 2018, the EBA continued to publish data on two key concepts in the Deposit Guarantee Schemes Directive (DGSD), namely available financial means and covered deposits. The data provide an overview of the level of pre-funded resources available to each deposit guarantee scheme (DGS) in the EU to cover its potential liabilities to depositors. The pre-funded, available financial means of each DGS are in the process of being built up under a new funding model introduced in 2014 with a deadline in 2024. The publication is done on a yearly basis and is intended to contribute to increasing the transparency and public account-



ability of DGSs across the EU to the benefit of depositors, markets, policy-makers, DGSs and Member States.

During the year, the EBA also continued to collect information on the uses of DGSs' available financial means, including in bank failures, and to publish information about such failures on the EBA's website. This notification framework complements the approach that the EBA has taken in relation to publishing information about bank resolutions. This information is easily accessible to the authorities and allows all interested parties to better understand the numbers of bank failures across the EU and the public measures taken to deal with those failures.

Finally, the EBA set up the necessary internal structures and process to support the European Commission in its obligation under the DGSD to assess progress towards the implementation of the DGSD and to report to the Commission on the calculation models used. Representatives from DGS designated authorities and, subject to certain conditions, private DGSs, form part of the EBA governance structure that has started delivering these tasks.

### Implementation of PSD2 and related EBA mandates

Throughout 2018, the EBA continued to deliver the six technical standards and six sets of guidelines mandated by PSD2. In addition, the EBA worked on supervisory convergence to ensure that the PSD2 requirements are applied in a sound, efficient and consistent manner across the EU.

**Finalisation of pending PSD2 mandates**

In July 2018, the EBA published its final guidelines on fraud reporting, which aim to ensure the availability of consistent statistical data on payment fraud across the EU and, in so doing, contribute to the greater security of retail payments in the EU. The first set of these guidelines, which were developed in cooperation with the ECB, requires PSPs across the EU Member States to collect and report a set of data on payment transactions and fraudulent payment transactions using a consistent methodology, definitions and data breakdowns. The second set of the guidelines requires national authorities to aggregate the data provided by PSPs and report it to the EBA and the ECB. Jointly with the ECB, the EBA has made particular efforts to align the guidelines with related reporting requirements, in particular with the ECB Regulation on Payment Statistics.

Also in July, the EBA published and submitted to the European Commission the final draft RTS on home-host cooperation. These RTS

specify the procedure for cooperation and exchange of information between home and host competent authorities. They also set out the periodical reporting requirements that host competent authorities can require payment providers operating in their territories to fulfil through branches or agents. With the submission of these RTS, the EBA has concluded its delivery of the 12 mandates, as illustrated in Table 3, with the final three mandates awaiting adoption and publication in the *Official Journal of the European Union* (OJ).

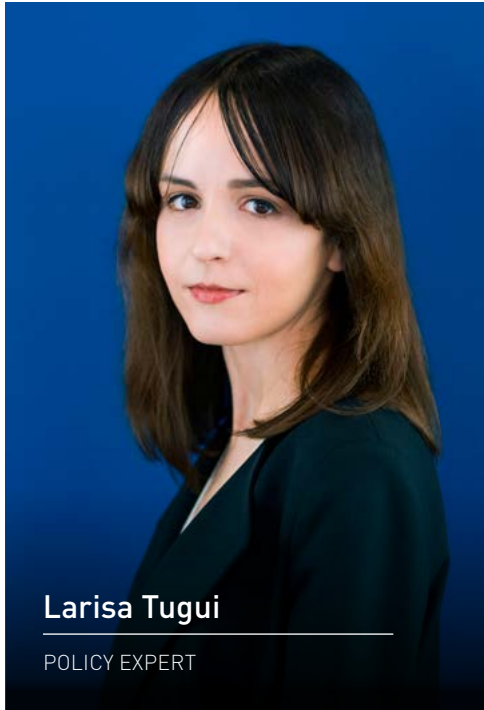
**Implementation of PSD2 and supervisory convergence**

The EBA published an opinion in June 2018, addressed to national authorities, on the implementation of the RTS on strong customer authentication (SCA) and common and secure communication (CSC). The opinion provides clarification on the application of SCA and the exemptions to SCA, the scope of the data to be shared by account-servicing payment service providers (ASPSPs) with account information

**Table 3:** Progress on EBA deliverables under PSD2

No	PSD2 mandate conferred on EBA	Milestone 1: EBA has started work	Milestone 2: EBA has published CP with draft GL/TS	Milestone 3: EBA has published final draft TS or final GL	Milestone 4: EBA has published GL compliance table or Commission has published TS in OJ
1	GL on security of internet payments under PSD1	✓	✓	✓	✓
2	RTS on scheme separation under IFR	✓	✓	✓	✓
3	RTS on passporting notifications under PSD2	✓	✓	✓	✓
4	GL on authorisation of payment institutions under PSD2	✓	✓	✓	✓
5	GL on professional indemnity insurance under PSD2	✓	✓	✓	✓
6	GL on operational and security measures under PSD2	✓	✓	✓	✓
7	GL on complaints procedures by CAs under PSD2	✓	✓	✓	✓
8	GL on incident reporting under PSD2	✓	✓	✓	✓
9	RTS on SCA and CSC under PSD2	✓	✓	✓	✓
10	RTS on central contact points under PSD2	✓	✓	✓	
11	RTS and ITS on EBA register under PSD2	✓	✓	✓	
12	RTS on home-host cooperation under PSD2	✓	✓	✓	
13	GL on fraud reporting under PSD2	✓	✓	✓	





## PAYMENT SERVICES

An important part of our work on payments focused on delivering the 13 technical standards and guidelines under PSD2. One of the main objectives of PSD2 has been to enable third party providers (TPPs) to access customers' payment accounts held with banks, and in so doing being able to offer innovative new services to consumers. To that end, the RTS on SCA and CSC required banks to build interfaces through which TPPs can access such data.

The guidelines on the fallback exemption play a vital role in this context. They clarify the conditions that ASPSPs, including banks, must meet in order to be exempted from the obligation to implement a 'fallback' mechanism. Without an exemption, banks developing a dedicated interface (an API) must also adapt their customer-facing interfaces to allow TPPs to access customers' accounts through such channels when their API is not functioning as expected.

This work has been very challenging and controversial, given the fragile balance that was reached in the final RTS between the interests of ASPSPs and those of TPPs. This gave rise to many practical questions on the implementation of the conditions for an exemption to be addressed after the publication of the RTS. The guidelines provide clarity to the market on the application of these conditions and mark an important milestone in supporting a smooth transition to customer-focused APIs. Contributing to this objective has been a very rewarding part of my job.



service providers and payment initiation service providers under PSD2 and the RTS, and the requirements for dedicated interfaces to be developed by ASPSPs.

Also in June, the EBA extended the EBA Q&A tool to PSD2-related questions. This has allowed all stakeholders to submit any questions they may have on the application of the directive and the legal instruments that the EBA has developed in support of it. The Q&A tool aims to support the consistent and effective application of the regulatory framework.

In addition, in December, the EBA published its final guidelines on the conditions that ASPSPs must meet in order to benefit from an exemption from the obligation to implement the contingency mechanism under Article 33(6) of the RTS on SCA and CSC. These conditions, which were introduced by the European Commission in the final RTS, which were published

in March 2018 as a Commission Delegated Regulation, raised a number of practical questions and requests for clarification from market participants. The guidelines aim to provide clarity to ASPSPs and national competent authorities in relation to the elements that should be considered for the purpose of an exemption and to ensure the consistent application of these conditions across the 28 EU Member States.

Finally, in December, the EBA published an opinion on the use of electronic identification, authentication and trust services (eIDAS) certificates under the abovementioned RTS on SCA and CSC. The opinion, addressed to competent authorities, aims to deal with questions and concerns raised by market participants in relation to the use of eIDAS certificates, the role of PSPs in relation to eIDAS certificates, and the process for issuing and revocation of certificates.

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

### Involving stakeholders in the EBA's regulatory work

The EBA is committed to being fully transparent in its working processes. In so doing, it strives to engage with all competent authorities, stakeholders and interested parties, and give them the opportunity to provide input to its work.

Therefore, the EBA consults a wide range of stakeholders to ensure that the Authority is in a position to take best-suited decisions in the interest of the EU without damaging stakeholders' interests. In accordance with its founding regulation, the EBA has set up a Banking Stakeholder Group (BSG), the consultation of which is a mandatory step in the drafting of RTS, ITS, guidelines and recommendations. In addition, the BSG provides the EBA with its view on topical and targeted issues.

According to Article 37(5) of the EBA's founding regulation, the BSG may also submit opinions and advice on any issue related to the tasks of the EBA, with a particular focus on common supervisory culture and peer reviews of competent authorities. The BSG may also submit a request to the EBA, as appropriate, to investigate an alleged breach of Union law (BUL).

In 2018, the BSG was very active in its advisory role, providing comments on public consultations, and participating in workshops and roundtables organised by the EBA to which its contributions were sought. Some BSG members were also involved as discussants in the 2018 EBA policy research workshop, 'Reaping the benefits of an integrated EU banking market'.

In total, the BSG responded to 10 public consultations in various areas such as outsourcing, payments, stress testing and credit risk. The BSG, together with the stakeholder groups of ESMA and EIOPA, wrote a joint letter to the Vice-President of the European Commission with regard to the review of the ESAs, putting forward some proposals to improve the functioning of the three ESAs.

The BSG met physically six times in 2018. During those meetings, the EBA updated the group on the latest developments in the regulatory and supervisory fields. BSG members provided their views on consultation papers and organised their work through five working groups. In addition to the regular BSG meetings, one joint meeting with the Board of Supervisors was held in April 2018, focusing on FinTech.

After a term of two and a half years, the BSG also published an end-of-term report, summarising the work done during this time and suggesting some possible improvements to the governance and the functioning of the group. In early 2018, the EBA issued a call for expressions of interest to renew some of the BSG members whose mandate was terminating. After a strict selection procedure, applying criteria relating to the experience and expertise of the candidates, their gender and geographical representation, 14 new BSG members were appointed in October 2018 to the six different constituencies of the group, namely credit and investment institutions' representatives, their employees' representatives, consumers, users of banking services, representatives of SMEs and independent top-ranking academics.

### Settling disagreements

The EBA has a mandate to assist competent authorities in resolving disputes and disagreements related to supervision and resolution of cross-border banks. Thus, as well as using mediation skills themselves, supervisors may also ask the EBA to mediate in their disputes. One of the tasks of the EBA is to provide an environment where competent authorities can solve their disagreements. To enable the EBA to execute this task, its founding regulation lays down two separate procedures to help the competent authorities to overcome disputes: binding mediation and non-binding mediation.

Binding mediation has been designed as a two-stage process. During the first stage, the role

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

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

The disagreement can be about anything, but the main topics the EBA has dealt with so far are joint decisions, such as on capital requirements, liquidity, recovery and resolution planning, and supervisory measures. For example, the EBA has helped resolve disputes about the need for ring-fencing measures imposed by host authorities, and about supervisory cooperation.

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

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

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

In order to raise awareness among competent authorities about the mediation process, the EBA organised, in September 2018, a mediation workshop at the EBA's premises. In 2018, the EBA participated in two binding mediations. For the first time, conciliation did not work and the EBA issued a binding mediation decision to the SRB and the National Bank of Romania. This highlights the importance of mediation in the field of resolution.

### Litigation cases in 2018

In 2018, the Legal Unit provided advice and assistance on litigation cases. With regard to case T 128/17, *Isabel Torné v European Commission*, the EBA intervened in support of the applicant. The case related to the continuity of pension rights and the retirement age affecting a temporary agent 2(f). An action had been brought by her before the General Court of the Court of Justice of the European Union regarding the continuity of her contract when moving from one EU agency to another. The judgment was delivered on 14 December 2018; the court ruled in favour of the applicant.

In addition, the deadline for appeal in case T-229/15, *European Dynamics and others v European Banking Authority (EBA)* lapsed in 2018. The applicant here had requested that the General Court annul a tender for the supply of interim staff at the EBA. The General Court dismissed the action and ruled in favour of the EBA.

### Breach of Union law

Article 17 of the EBA’s founding regulation gives the EBA power to investigate potential breaches of Union law by competent authorities, including competent authorities within the Member States and the ECB under the Single Supervisory Mechanism (SSM). This serves the goal of ensuring the application of Union law. Where the EBA finds a BUL, it issues a recommendation on the actions to be taken by the competent authority to rectify the situation. Under Article 17, if the EBA finds a BUL, this may lead to further action by the Commission.

#### Scope of investigative power and initial steps

The EBA’s competence to investigate a competent authority relates to breaches of legal acts, in relation to which the EBA has a broad mandate, set out, for example, in CRD IV, the MCD and the AML Directive. The EBA may launch an investigation either on request or on its own initiative.

Article 17 of the founding regulation sets out the framework for the conduct of the inves-

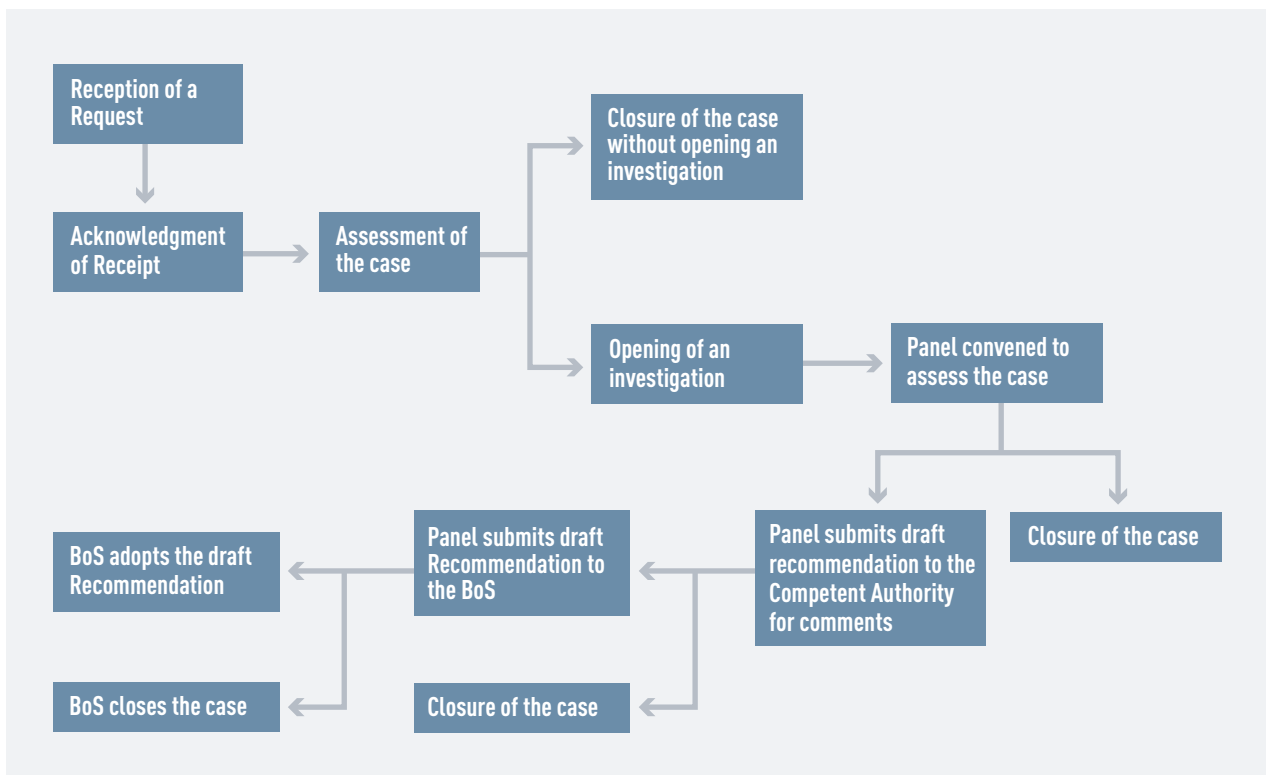
tigation, and the EBA has also published information on how investigations may be run. For those who may wish to complain about a breach of Union law, the EBA’s website further explains the scope of our investigative powers, and the steps that may be taken to pursue grievances, which it is not within the EBA’s power to investigate. Notably, while the EBA may investigate a competent authority for failure to comply with its obligations to supervise firms, it cannot investigate the firms concerned directly.

In assessing whether to initiate an investigation, the EBA will often conduct preliminary inquiries with the competent authority concerned with a view to building a clearer picture of the facts and issues in the case. The decision on whether to initiate an investigation under Article 17 is then made by the EBA’s Chairperson.

#### The investigation

Having initiated an investigation under Article 17, the Chairperson convenes a panel composed of six members of the Board of Supervisors in addition to the Chairperson himself.

Figure 13: The BUL process





**Cian Carroll**

LEGAL EXPERT



## THE EBA'S ROLE IN THE BUL PROCESS

I work in the EBA's legal team where together with our colleagues we examine cases of potential breaches of Union law by competent authorities, so I can give some insight into the EBA's activity in this area in 2018 and how the work is carried out.

The EBA's role in ensuring that Union law is applied has a particular focus on potential breaches of law by competent authorities. In 2018, our team had fresh challenges in its BUL investigative work, with a number of cases involving violation of money laundering regulations coming to light. During the summer, the EBA concluded an investigation regarding the Maltese Financial Intelligence Analysis Unit's supervision of Pilatus Bank. We had started to examine the case following a request from the Commission in late 2017. The team, working together with colleagues, assisted in extensive preliminary enquiries carried out by the EBA, including an on-site visit to the FIAU, aimed at understanding the extent to which the FIAU's approach to AML/CFT supervision and enforcement in relation to Pilatus Bank Ltd had been effective and in line with Union law. After moving into the formal investigation phase in May 2018, the case concluded in July 2018, with the Board of Supervisors adopting a recommendation addressed to the FIAU concerning breach of its supervisory responsibilities pursuant to AMLD3.

The Maltese FIAU case was followed in 2017 by further requests from the European Commission and MEPs, all of which were made public, to examine other competent authorities in their supervision of AML compliance issues linked to banks in various Member States. These cases were under active consideration going into 2018. As well as the AML cases, our team also looks at potential breaches of other Union law, for instance in the areas of prudential requirements and consumer protection, and so the work is continuously interesting and engaging in its scope, as well as in terms of the technical challenges that each case presents.



The panel's task is to form a view on whether there has been a BUL. Where the panel considers that there has been a breach and has given the competent authority concerned the opportunity to comment on its position, it proposes a draft recommendation for adoption by the Board of Supervisors.

Where the Board of Supervisors adopts the recommendation, the competent authority has 10 working days to inform the Chairperson of the steps it has taken or intends to take to ensure compliance with Union law. The Chairperson informs the Commission and the Board of Supervisors accordingly.

If the competent authority does not comply within those 10 days, the European Commission may issue a formal opinion requiring the competent authority to take the action necessary to comply with Union law. The Commission's formal opinion must take into account the Authority's recommendation.

Where a competent authority does not comply with the Commission's formal opinion within the specified time period, the EBA may under certain conditions adopt a decision addressed to a financial institution requiring the necessary action to comply with its obligations under Union law.

### 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 sufficient impact assessment to support the development of its regulatory policies. In line with the relevant provisions of the EBA's founding regulation, the EBA bases its development of technical standards, guidelines, recommendations and opinions on rigorous impact assessments, by gauging the incremental costs and benefits of the various policy options and proposed technical specifications. This work includes undertaking quantitative impact studies, analysing individual and aggregate banking data, assessing appropriate methodologies for using such data, and performing qualitative analyses, as well as considering, where appropriate, the proportionality implications of the EBA's proposals.

### Conducting peer reviews

The EBA's peer reviews aim to further increase the consistency of supervisory outcomes. Peer review exercises are conducted in accordance with the provisions of Article 30 of the EBA founding regulation and the EBA decision establishing the Review Panel. Peer reviews include an assessment of the adequacy of resources and governance arrangements of competent authorities, especially regarding the application of RTS and ITS; the degree of convergence reached in the application of Union law and in supervisory practices; and a consideration of the best practices developed by competent authorities. The EBA also has to make publicly available the best practices that can be identified from peer reviews. In addition, all other results of the peer review may be disclosed publicly, subject to the agreement of the competent authorities that are the subject of the peer review.

One of the goals of the CRD is to ensure due observance of the right of establishment and the freedom to provide services for credit institutions within the EU. The CRD mandates the EBA to develop draft RTS to specify the information to be notified and ITS to establish forms, templates and procedures for such notifications in accordance with Articles 35, 36 and 39. In October 2017, the Board of Supervisors approved the terms of reference of the peer review of the RTS on the information to be notified when exercising the right of es-

establishment and the freedom to provide services under Articles 35, 36 and 39 of Directive 2013/36/EU (RTS on passport notifications).

The purpose of this peer review was to assess how home competent authorities apply the RTS and more precisely how they share information arising from credit institutions' passport notifications. The peer review, therefore, assessed how competent authorities collect mandatory information from credit institutions, should they plan to establish a branch, carry out new services and activities in another Member State, or change the particulars of a branch passport notification, or how they deal with notifications related to the exercise of the right of establishment and the freedom to provide services. The review also aimed to assess the extent to which host competent authorities cooperate effectively and efficiently in the management of passport notifications. In this regard, the peer review also focused on the quality assurance process and paid great attention to how competent authorities manage timeliness when handling credit institutions' information and assess the completeness and granularity of this information.

The results of the peer review showed that competent authorities have developed consistent and robust procedures to comply with the RTS requirements, although the level of sophistication of these processes vary among competent authorities.

The area where the Review Panel saw inconsistencies concerned the cooperation between competent authorities when dealing with branch or services passport notifications. The exchange of information, its timing and the granularity of the information transmitted could be more consistent among competent authorities. In the context of Brexit and for the sake of convergence of practices in the Single Market, it may be worth establishing better cooperation channels as well as developing more meaningful interaction between competent authorities. The Review Panel identified some possible best practices in this regard, the dissemination of which may be beneficial for all competent authorities. In addition, competent authorities raised concerns about the practical application of proportionality. Given that the RTS and ITS on passport notifications impose full harmonisation, competent authorities urged the EBA to introduce proportionality into the operational arrangements for the analysis of notifications. Overall, competent

authorities considered that the passporting processes were efficient enough to ensure timely sharing of information between home and host competent authorities.

In October 2018, after the publication of the final peer review report on the RTS on passport notifications, the Board of Supervisors approved the terms of reference of the peer review of the RTS on criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile.

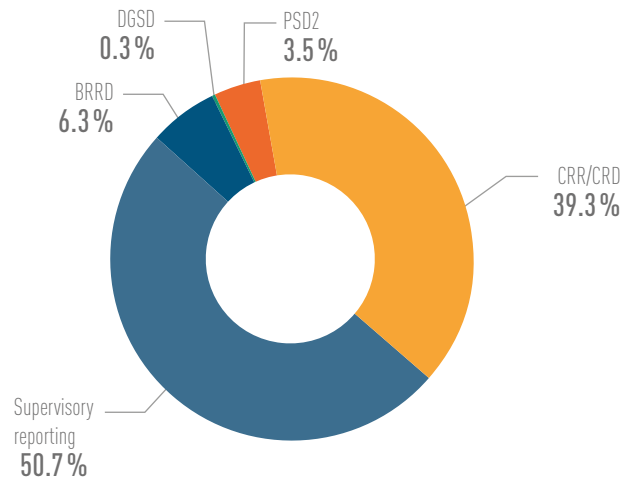
The main purpose of this peer review is to assess the supervisory practices and measures taken by competent authorities with respect to the requirements set out under the RTS on 'identified staff'. The framework prescribed by the RTS imposes directly applicable requirements on institutions and relies significantly on the input that they provide to the competent authorities for the purposes of reviewing and approving, where applicable, requests for exemption under the RTS. The peer review also evaluates how the RTS are applied within the prudential scope of consolidation in line with Articles 92 and 109 of Directive 2013/36/EU. In addition, the peer review also considers the application of the proportionality principle, specifically with regard to whether and to what extent the identification of material risk takers is subject to waivers at Member State level.

### Maintaining the Interactive Single Rulebook

The Interactive Single Rulebook (ISRB) is a compendium of the key legislative frameworks within the EBA's remit: the CRR and CRD IV, the BRRD, the DGSD and, since 2018, also the Payment Services Directive (PSD2). This resource allows stakeholders to consult the relevant legislative frameworks, providing links from the articles of Level 1 texts to any associated technical standards (RTS and ITS) developed by the EBA and adopted by the European Commission, as well as EBA guidelines and Q&As relating to these legislative and regulatory texts.

The Single Rulebook Q&As contribute to the ISRB by providing guidance to help ensure the consistent application and implementation of the regulatory framework across the EU Single Market. The review of the questions, submitted by competent authorities, institutions, industry associations and other stakeholders,

Figure 14: Overview of Q&As by topic



## ONGOING WORK

The EBA's Board of Supervisors recently approved an action plan aimed at reducing the backlog of outstanding reporting Q&As, the implementation of which is expected to take place in 2019.

follows a thorough due process involving the EBA, competent authorities and the European Commission, and ultimately results in clarifications on the aforementioned legislative and regulatory texts.

The Q&A tool's significance is reflected in the continuously high number of questions submitted: By 31 December 2018, 4 440 questions (compared with 3 650 at the end of 2017) had been submitted via the dedicated Q&A tool on the EBA's website.<sup>[25]</sup> Of these, about 1 750 were rejected or deleted (up from about 1 360 at the end of 2017), about 1 545 were answered (up from about 1 380 at the end of 2017) and about 1 145 were under review (up from about 910 at the end of 2017). Of the questions under review, about 115 related to the recently added PSD2. About 110 were on the BRRD and about 5 on the DGSD. The bulk of around 915 outstanding Q&As were on the CRR/CRD, with the majority on issues relating to supervisory reporting.

<sup>[25]</sup> <https://www.eba.europa.eu/single-rule-book-qa>

## ONGOING WORK

The EBA is currently reviewing the findings in more detail with the intention of providing public feedback on this initiative later in the year. In parallel, the EBA is looking into ways to optimise its Q&A process (including in terms of timeliness) and to further increase the user-friendliness of the Q&A tool.

During the second half of 2018, the EBA also undertook a study to assess the use and the utility of the EBA Q&A tool and the answers published. Overall, the findings were encouraging, in that both competent authorities and surveyed institutions appeared to use and appreciate this resource. This is notwithstanding the fact that suggestions for improvements were put forward.

### Providing legal support for the EBA's work

Throughout 2018, the Legal Unit provided legal support to the governing bodies, to the management, and to the core policy and operational functions of the EBA. As regards the EBA's regulatory activities, the Legal Unit has offered legal analysis of and support in the drafting of binding technical standards, guidelines, recommendations and opinions. The Legal Unit also provided its advice on oversight activities by issuing supervisory rec-

ommendations as well as by facilitating the resolution of disputes. In relation to the EBA's institutional setting, legal support was given on matters related to the EBA's relocation, in particular the negotiation and drafting of contracts, including the lease for the EBA's new office in Paris; issues stemming from the Staff Regulations and the Conditions of Employment of Other Servants of the European Union; governance-related issues; requests for public access to documents lodged pursuant to Regulation (EC) No 1049/2001; professional secrecy and confidentiality issues; intellectual property rights; protocol and matters arising in connection with the EBA's relations with the host state; and requests from EU bodies such as the European Court of Auditors and the European Ombudsman. As part of the continuous monitoring of the EBA's legal framework, the Legal Unit worked to ensure that good administrative practices were in place.

### 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. In 2018, the designated officers within the EBA promoted the importance of data protection issues to the EBA's staff, in particular by raising the importance of data protection during induction sessions organised for new joiners. The designated officers actively participated in the meetings of the EU Data Protection Network, including with regard to the introduction of the General Data Protection Regulation (GDPR).





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

The year 2018 has been one of the most challenging yet for the EBA's IT Unit, given the accumulation of overlapping mission-critical workstreams on top of ensuring stable business operations and continuous improvements, especially given the requirements of the Paris relocation, the data centre migration and the EUCLID program.

The IT Unit successfully delivered on all workstreams, in numerous cases using the opportunity to transform its services, improving the solutions offered and reducing the associated costs.

As part of the Paris relocation work programme, the IT Unit prepared, designed and contracted new modern and secure office infrastructure, including connectivity for a secure, highly mobile, wireless work environment, audio-visual infrastructure for meeting rooms, and conferencing facilities. In doing so, the IT Unit took the opportunity to migrate towards as-a-service solutions (for printing, telephony and communications) while reducing costs, improving security, and increasing flexibility and quality. The IT Unit rolled out infrastructure and solutions for 100% mobility of the agency's workforce (laptops and teleworking solutions) while strengthening security.

With its data centre hosting contracts expiring in 2019, the EBA decided to migrate towards an interagency community cloud environment, in line with its hosting strategy and ahead of the Brexit date in March 2019. In carrying out its 2018 data centre migration programme, the EBA, in close collaboration with EIOPA, designed, planned, contracted and 40% implemented (100% by February 2019) the transfer of its hosted data and infrastructure services from a SERCO data centre to a CANCOM data centre. In doing so, the IT Unit ensured no disruption to the Agency's activities and improved security while reducing costs for the same or a better quality of service.

The EUCLID program is the core digital element of the EBA's strategy to expand supervision to the entire EU banking market. In 2018, the IT Unit successfully advanced the implementation of EUCLID workstream 2 (the Master Data Management (MDM) engine), at the same time providing converging platforms

for incoming projects (the PSD2 Register) and existing applications (the Credit Institutions Register). This enabled the unit to achieve a very quick implementation time (because of the high reusability of EUCLID) and lower cost to operate (because of the converged architecture and solutions).

During 2018, the IT Unit also maintained the current supervisory collection platform, ESP 10, aligning it with the data point model DPM 2.8. The EBA completed and launched a data analytics project, delivering a DPM-based analytics platform that offers self-service business intelligence capabilities to EBA staff. In July 2018, the EBA finalised enrolment into the ESCB secure email infrastructure, enabling EBA staff to participate in end-to-end secure messaging with member national competent authorities. Furthermore, the unit successfully advanced other initiatives to be launched in 2019, including ESP 11; a new version of its document management solution, eDEN 2.0; increased automation in file exchanges with BIS; and a high degree of automation of administrative workflows for Finance and Missions. Workflow automation also saw the successful introduction of an agile project delivery methodology.

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

### Communicating and promoting the EBA's work

In 2018, the Communications Team undertook several tasks to promote a large number of publications and to support the delivery of the EBA's main projects in important areas such as the EU-wide stress test and transparency exercise, the work around NPLs, Brexit, the work on internal models, FinTech, AML, monitoring of Basel implementation, etc. In total, 119 news items and press releases were published throughout the year.

Media briefings and interviews were organised either reactively or proactively, based on the EBA's outputs that, in the light of specific relevance or sensitivity, were deemed to require dedicated media activities. This was



particularly the case for the opinion on Brexit, the EU-wide stress test and the transparency exercise. In 2018, the team organised 43 interviews and background briefings with journalists.

As part of an effort to improve internal communications, the team continued drafting and disseminating the staff newsletter (nine issues sent in 2018). In line with the EBA Management Board's decision to translate all EBA guidelines and recommendations into all the EU official languages, 58 final EBA products were proofread and we shared 10 products for review with the National Editors Network.

The EBA social media accounts continued to generate a great deal of attention. On 8 January 2019, the Twitter account had amassed 8 147 followers, an increase of 23% on the previous year. During that time, the publication of the 2018 EU-wide stress test was the most notable activity, which received 22 954 impressions. The EBA LinkedIn account also grew considerably in 2018. The number of page views also grew significantly across the year and impressions peaked at 13 958 in No-

vember, following the publication of the report on the 2018 EU-wide stress test. Towards the end of the year, the EBA relaunched its social media channels, namely its Twitter and LinkedIn channels, with the final strategy to be approved and fully implemented in 2019. The Communications Team worked with EBA staff attending public events, who significantly raised engagement on social platforms by promoting EBA products, making keynote speeches and presentations, and interacting with the European institutions and stakeholders.

Throughout the year, the EBA website registered an average of 8 681 visitors a day. In total, the website received over 3.16 million visits in 2018 (+12.53% in comparison with 2017) corresponding to over 9.3 million page views (+6.63%). The end of the year saw an increase in the number of visitors as a result of two major product releases in November and December: the stress test report (2 November) and the transparency exercise report (14 December). Geographically, the highest concentration of visits came from the UK (15.27%), followed by Germany (11.95%) and the USA (9.8%).

## The EBA's Brexit preparations

### The EBA's work on UK withdrawal from the EU

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

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

### Institutions' preparedness

In 2018, the EBA continued closely following Brexit-related developments to understand the potential risks and issued its second opinion to draw these risks to the attention of financial institutions and supervisors, and to highlight the need for financial institutions to put in place appropriate mitigating measures.

The June 2018 opinion<sup>[26]</sup> focused on the risks posed by the seeming lack of adequate preparations by financial institutions, with a view to ensuring that the financial institutions (i) established whether they had direct or indirect exposures to the UK, and (ii) if they did, considered the risks concerned, and how those might affect them, deciding on adequate mitigating action and forming contingency plans. In that opinion, the EBA also outlined specific areas of concern (or risk channels) that financial institutions should duly consider in their contingency planning, including access to financial market infrastructure; ability to perform contractual obligations under existing contracts, including performance of ancillary services or actions; funding market access; transfer and storage of personal data; and

the use of UK law in issuances of instruments eligible for the minimum requirement for own funds and eligible liabilities (MREL) — all without relying on possible public sector solutions. Furthermore, the EBA stressed that the financial institutions should identify and seek all necessary authorisations and regulatory permissions/approvals both in the UK and in the EU-27 Member States in order for them to be in place by March 2019.

In its opinion, the EBA also asked competent authorities to engage with financial institutions to ensure that they had carefully assessed their obligations to (existing and prospective) customers, and taken any necessary actions to ensure the continuity of services in the light of their continuing contractual commitments.

The June opinion was prompted by the monitoring of institutions' contingency planning conducted by supervisory and resolution authorities and coordinated by the EBA, which showed a lack of sufficient progress by the financial institutions and the need to speed up their preparations for the potential 'cliff edge' scenario (withdrawal of the UK without a ratified withdrawal agreement).

Since the publication of the opinion, the EBA has continued, together with supervisory and resolution authorities, to monitor institutions' progress on their contingency planning and customer communication. Thus, in late 2018, the EBA observed that there had been some progress by financial institutions in a number of areas. For example, more institutions were implementing contingency plans and the contingency plans themselves had gained more substance. In particular, more institutions were getting the necessary licences and relocating their businesses, and they claimed to have made progress on diversifying access to funding, introducing contractual bail-in clauses into newly issued MREL instruments and introducing contractual clauses to facilitate data transfers.

Furthermore, the EBA saw a concerted policy response to the biggest concern for financial stability identified in relation to (i) how to address the stock of centrally cleared derivatives, where UK-based central counterparties

<sup>[26]</sup> <https://eba.europa.eu/documents/10180/2137845/EBA+Opinion+on+Brexit+preparations+%28EBA-Op-2018-05%29.pdf>

(CCPs) pay a crucial role, and (ii) the ability to continue to perform life-cycle events for OTC derivatives. In the former case, a public sector initiative from the European Commission proposing a time-limited and strictly conditional equivalence decision, followed by temporary recognition by ESMA of the UK-based CCPs, would allow EU banks to use UK-based CCPs temporarily. As for the OTC derivatives, the approach is to do everything possible to facilitate their re-papering; the ESAs have revised technical standards to allow the extension of grandfathering to clearing and margining obligations of Brexit-related novated contracts.

Following up on the June opinion, and based on its monitoring of the institutions' progress on their contingency planning, in December 2018 the EBA also called for more action by financial institutions affected by Brexit in the area of communicating Brexit-related risks and mitigating measures being taken to their customers.<sup>[27]</sup>

#### Supervisory cooperation

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

The EBA is also quite active in the preparations for the post-Brexit cooperation arrangements, where our focus is three-fold: (i) cooperation between supervisors, (ii) cooperation between resolution authorities and (iii) cooperation between the EBA (as an authority) and the UK authorities. In all of these three areas, the EBA has developed MoUs with the objective of having them in place in sufficient time before the end of March 2019.

All of these MoUs are cliff edge MoUs to be put in place in case of a cliff edge scenario materialising, and ensuring that the supervisory and resolution cooperation between the EU and the UK is proportionate to the integra-

tion of their financial sectors and in line with the existing EU framework for third countries. Should, however, a ratified withdrawal agreement be in place, cooperation between the supervisory and resolution authorities would continue for the duration of the agreed transitional period on the same basis as before, as the EU legislation would continue to apply to the UK.

The nature of the political settlement and the negotiation of the future relationship between the EU and the UK would determine the cooperation between the EU supervisory and resolution authorities and their UK counterparts after any transitional arrangements ended, and the EBA stands ready to support the European Commission and the EU institutions in building a future supervisory and resolution cooperation framework.

#### Implementation of the relocation plan for the EBA's move to Paris

On 22 November 2017, the EU-27 ministers selected Paris, France, as the new seat of the EBA. The selection took place in the margins of the General Affairs Council (Article 50), in accordance with the procedure endorsed by the EU-27 Heads of State and Government on 22 June 2017. This new seat was formally incorporated into the EBA's founding regulation in November 2018, following agreement between the European Parliament and the Council.

After the set-up of a project team, the EBA initiated contacts with the French authorities and in particular with the Paris Region Enterprises agency to start the preparation works related to the relocation.

During March 2018, the EBA and ESMA explored and assessed possible synergies that could be achieved by selecting the same building. In the event, the EBA decided to run a stand-alone procurement process.

In April 2018, the EBA issued notice of a call for applications for rental of office space in Paris and La Défense, before sending invitations to tender only to candidates meeting the minimum requirements. After the evaluation of tenders and the subsequent selection of the new premises in May 2018, a building file was submitted for approval to the Board of Supervisors, the European Parliament and the European Council in June 2018.

<sup>[27]</sup> <https://eba.europa.eu/-/the-eba-calls-for-more-action-by-financial-institutions-in-their-brexit-related-communication-to-customers>

Following the approval process and the signature of the lease agreement with the landlord, the EBA focused on procurement for the office fit-out design and for project management services.

### Relocation project

During 2018, the Corporate Support Unit worked on the creation of a building file, dealing with fit-out works and preparing services for the new premises. The unit has been leading the relocation project team, defining an overall relocation plan and being supported by various other units.

The Legal Services Unit has been conducting work in three principal areas: supporting negotiation of the headquarters agreement with the French government, providing information to staff on UK immigration issues, and advising on the lease for the EBA's new premises and disposal of the EBA's London premises.

The Human Resources Unit published 10 vacancy notices to establish reserve lists in order to mitigate high operational risk for the EBA and reduce the potentially high level of disruption.

The unit developed a number of policies (specific arrangements to be offered to EBA staff for relocation to the new seat, a decision on teleworking during the transition period and a policy on removal of staff households) and measures to facilitate the relocation of staff. Some policies had to be reviewed with a view to the relocation to reflect the new conditions (i.e. the EBA education contribution policy).

The EBA prepared information sessions on various topics: changes to salaries and entitlements following the relocation of the EBA to Paris, the French educational system, housing in the Paris region and administrative matters. Discovery trips to Paris for staff have been organised, as well as individual consultations between staff and advisers at Choose Paris Region.

Additional efforts were made to organise French language training for staff members and their families, provided by the French authorities.

The IT Unit's work covered three main areas: end user equipment (PCs, laptops, phones and tablets), back-end infrastructure based on two data centres managed by an external IT

provider and Paris office infrastructure (networks, printers, audio-visual equipment and conferencing infrastructure).

The relocation of the two data centres from the UK was targeted for planning and execution in 2018, with the first part of the year dedicated to solution design, planning and contracting, and the second half of the year devoted to execution and transitional services set-up and support. The EBA used the opportunity of the relocation to move its hosting strategy forward by onboarding a community cloud solution for EU agencies, with nearly 40% of the migration completed in 2018 and full completion achieved in February 2019.

In preparation for the relocation, the EBA IT Unit rolled out solutions for a 100% mobile workforce (laptops and teleworking capabilities), migrated towards as-a-service solutions (for printing, telephony and conferencing, etc.), and strengthened security and support.

For the Paris office, the IT Unit planned, prepared and contracted modern IT office infrastructure, including high quality and secure networking, and adequate audio-visual and conferencing capabilities for the meeting rooms. In doing so, the unit reused some of the existing infrastructure (where possible) while aiming for cohesive, modern, integrated solutions in the new building.

The Finance and Procurement Unit focused on the maintenance of a budget model for the relocation until 2021. This is a live model giving an up-to-date picture of changes in budget required for the relocation. This model was used to identify the amount of the increasing amending budget required in 2018. It was also used as an input to the discussions with the French government around the timing and coverage of the French government's EUR 8.5 million financial contribution to the EBA. Moreover, a procurement plan was defined and agreed with internal stakeholders; it identified all procurement procedures arising from the relocation to Paris.

The Communications Unit has been taking care of sharing information about the relocation of the EBA with the staff, mainly via the staff newsletter (an electronic newsletter for internal communications), and has been updating the intranet for the purpose of the relocation.

## The ESAs' cross-sectoral work under the Joint Committee

In 2018, under the chairmanship of ESMA, the Joint Committee continued in its role as a central point for coordination and exchange of information between the ESAs, along with the European Commission and the European Systemic Risk Board (ESRB). The focus of the committee on Brexit-related issues increased, as the ESAs continued in their preparation for the withdrawal of the UK from the EU. At the same time, progress continued on work in other important cross-sectoral fields, such as increasing consumer protection, monitoring financial innovation, and combating money laundering and terrorist financing.

### Overseeing market developments and cross-sectoral risks

The Joint Committee continued as an important forum for discussions on market developments and in-depth analysis of emerging risks, helping to identify the main areas of supervisory concern across the EU. As uncertainties regarding the UK's withdrawal from the EU grew, the impact of a potential cliff edge scenario, ongoing supervisory matters and future cooperation with UK authorities became focal points for the Joint Committee. These escalating uncertainties were reflected in the Joint Committee's biannual risk reports, published in spring (JC 2018 07) and autumn (JC 2018 27), which also addressed other necessary measures to ensure consistent EU

supervisory oversight in the light of Brexit, including on possible relocations, as well as highlighting the need for appropriate contingency planning by financial institutions.

Aside from Brexit issues, both Joint Committee risk reports also covered risks associated with repricing of risk premiums, increases in yields and interest rates, and operational, cyber- and sustainability risk developments. The reports suggested actions to address these rising challenges.

### Safeguarding consumers across financial services and examining FinTech developments

Consumer protection and financial innovation once more figured prominently on the Joint Committee's agenda. With the PRIIPs Regulation (on key information documents for packaged retail and insurance-based investment products (PRIIPs)) coming into force in 2018, the ESAs focused on ensuring the smooth implementation of the new rules. To this end, additional Q&As (JC 2018 22) were published to clarify the application of the rules and to promote common supervisory approaches and practices. The ESAs also analysed issues raised by national competent authorities and stakeholders in order to help ensure the consistent application of the rules. In July, the Joint Committee called upon the European



Commission to provide detailed public guidance on the types of products, and in particular bonds, that fall within the scope of the regulation (JC 2018 21).

In October 2018, the Joint Committee launched a consultation paper (JC 2018 60) on targeted amendments to the delegated regulation covering the rules for the PRIIPs key information document (KID). That consultation addressed issues that had arisen since the introduction of the new rules, as well as the application of the KID to Undertakings for Collective Investments in Transferable Securities (UCITs) funds, taking into account that the exemption for UCITs funds was, at that stage, due to expire at the end of 2019.

In August 2018, the scope of application of the current ESMA-EBA guidelines on complaints handling (JC 2018 35) was extended to authorities supervising the new institutions established under PSD2 and the MCD, thus ensuring that the same set of requirements applied to complaints handling and the same level of protection for consumers applied to all financial institutions across the banking, investment and insurance sectors.

In the field of financial innovation, the Joint Committee published a report on the use of big data (JC 2018 04), presenting the benefits and risks of allowing the development of products tailored to consumers' needs and using big data analytics and processes. The final report encouraged the adoption of good practices by financial institutions, and an accompanying consumer information sheet (JC 2018 05) provided a concise overview for consumers of the use of big data in financial services. The Joint Committee also conducted a monitoring exercise on developments in relation to automation in financial advice. The resulting report (JC 2018 29) illustrated that while the phenomenon seems to be slowly growing the overall number of firms and customers involved is still quite limited.

The ESAs also began working on several joint actions under the FinTech action plan. The first joint deliverable from this action plan was the joint report on regulatory sandboxes and innovation hubs (JC 2018 74), which set out a comparative analysis of the innovation facilitators established to date within the EU and outlined best practices for the design and operation of innovation facilitators.

The Joint ESAs Consumer Protection Day 2018, which took place in Lisbon, Portugal, offered an opportunity for the ESAs to engage with key — and new — stakeholders, especially representatives of consumers, on important issues faced by consumers and investors across the EU. One of the topics covered that day was the extensive work done by the ESAs on bringing greater transparency to the costs and performance of retail investment products, which will help consumers make better informed decisions and compare products efficiently.

### Stepping up the fight against money laundering and terrorist financing

In a year that presented a number of high-profile cases involving several EU banks that had failed to implement robust systems and controls to prevent financial crime, the ESAs enhanced their focus on ensuring the consistent application of AML/CFT rules across the EU and improving standards of AML/CFT supervision.

As part of this, the ESAs organised three workshops on the risk-based approach to AML/CFT — on ML/TF risks and e-money, and on ML/TF risks and money remittance — that brought together representatives of national competent authorities, the European Commission, law enforcement, the FATF Secretariat and the private sector. Their aim was to consolidate supervisors' understanding of both the ML/TF risks associated with various sectors and business models, and the AML/CFT systems and controls that firms put in place to mitigate those risks, as well as to explore different approaches to the AML/CFT supervision of firms. These workshops were attended by over 300 AML/CFT supervisors from all Member States.

At the start of 2018, the ESAs' focus was on FinTech and how various innovative solutions are used by firms to meet their AML/CFT obligations. Under EU law, credit and financial institutions are required to assess ML/TF risks associated with their business and put in place effective policies and procedures to mitigate these risks. Customer due diligence (CDD) measures are central to these policies and procedures. However, EU law is technology neutral and does not set out in detail how these CDD measures should be applied, offering an opportunity for financial and non-

financial firms to explore new ways of meeting institutions' CDD obligations. While these innovations can potentially improve the effectiveness and efficiency of AML/CFT controls, they can also present various risks and potentially weaken ML/TF safeguards, if applied unthinkingly. These risks were addressed by the Joint Committee in its opinion on the use of innovative solutions (JC 2017 81), which was published on 23 January 2018.

Another area of focus was addressing shortcomings with respect to cooperation and information sharing, both at domestic level between authorities and across borders between authorities in different EU Member States. Cooperation and exchange of information between competent authorities responsible for overseeing the AML/CFT compliance of credit and other financial institutions is an essential part of an effective AML/CFT regime. EU AML/CFT legislation establishes an obligation for competent authorities to cooperate and exchange information, but it does not set out in detail how this should be achieved. Therefore, in November 2018, a consultation was launched on draft joint guidelines on supervisory cooperation and information exchange (JC 2018 59). The guidelines envisage that supervisory practices for cooperation and information exchange could be improved through the creation of AML/CFT colleges of supervisors and set out conditions for the establishment of these colleges. In addition, these guidelines also set out the ESAs' expectations with regard to bilateral communications between the competent authorities.

#### Managing the Single Rulebook and ensuring a level playing field

In December 2018, the ESAs published two joint draft RTS to amend the RTS on the clearing obligation (JC 2018 76) and risk-mitigation techniques for non-cleared OTC derivatives (JC 2018 77). These standards extend the special treatment currently associated with covered bonds to STS securitisations, to ensure a level playing field with covered bonds.

The ESAs published a statement on disclosure requirements for EU securitisations and consolidated application of securitisation rules for EU credit institutions (JC 2018 70), in response

to industry concerns relating to severe operational challenges in meeting the transitional provisions of the Securitisation Regulation disclosure requirements. The ESAs emphasised that competent authorities should apply a proportionate approach to examining reporting entities' compliance with the rules in the short term.

Since the adoption of two implementing regulations on credit assessments by external credit assessment institutions (ECAIs) based on the draft ITS submitted by the Joint Committee in 2016, and subsequent amendments in 2017, the ESAs launched a consultation on further amendments to the implementing regulations (JC 2018 40 and JC 2018 41) to reflect the outcome of a monitoring exercise on the adequacy of the mapping, based on a quantitative and qualitative assessment. In particular, the ESAs proposed changes to the methodology for two ECAIs, together with the introduction of new credit rating scales for ten ECAIs.

#### Monitoring of financial conglomerates

In 2018, the Joint Committee published its annual list of financial conglomerates (JC 2018 68), showing the locations of 78 financial conglomerates with the head of group in the EU/EEA area, one financial conglomerate with the head of group in Switzerland, one in Bermuda and one in the United States. In addition, the Joint Committee continued to work on reporting templates in this field.

#### Board of Appeal

The ESAs continued to provide operational and secretarial support to the Board of Appeal. In 2018, two appeal cases were brought against ESMA. In the first case, the Board of Appeal unanimously decided that the appeal should be dismissed (BoA 2018 01), as no ESMA decision could be identified as grounds for appeal and the appellant could not be contacted. In the second case, against a decision by ESMA not to open a formal investigation into the Cyprus Securities and Exchange Commission in relation to certain dealings in binary options and contracts for differences, the Board of Appeal unanimously held that it had no jurisdiction to hear the appeal (BoA 2018 02)



# Priorities for 2019

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## Contributing to the action plan to tackle non-performing loans in Europe

NPLs remain a priority for the EBA's policy work in 2019, and the EBA will continue to contribute to the objectives of the Council action plan to tackle NPLs in Europe.

### Guidelines on loan origination and monitoring

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In 2019, the EBA will finalise its consultation paper on guidelines on loan origination and monitoring. The objective of these guidelines is to prevent newly generated loans becoming non-performing and hence the build-up of new NPLs in the future. To this end, the EBA is acting to promote improved underwriting standards for new loans.

The guidelines will set out requirements for institutions' governance arrangements, with a focus on credit risk; loan origination policies and procedures, including assessments of borrowers' creditworthiness; and monitoring. The guidelines will also pay particular attention to consumer protection issues related to such activities.

### Further work on NPLs

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The EBA will contribute to the work of other bodies and institutions of the EU, such as the analysis of the insolvency and debt recovery frameworks, and will work together with the EU authorities on tools to develop secondary markets for NPLs.



## Preparing for the application of major new items of EU legislation

### Sequencing the CRR2 mandates

The upcoming risk reduction package will introduce reforms agreed at international level into the EU regulatory framework, with a view to strengthening the banking sector and addressing outstanding challenges to financial stability. It will also enhance the framework for bank resolution. The revisions to the CRR, the CRD and the BRRD will change or replace some of the core elements of the prudential and resolution frameworks.

### Impact on supervisory reporting

In accordance with the mandates given by the CRR2 and BRRD2, the EBA will develop and/or modify reporting requirements on several topics, such as MREL, the net stable funding ratio, the IRB approach for credit risk, the standardised approach for market risk, the leverage ratio and counterparty credit risk.

### The EBA's mandate on a feasibility study for an integrated European reporting framework

The EBA will prepare a feasibility report regarding the development of a consistent and integrated system for collecting statistical, resolution and prudential data and report its findings to the Commission. The Commission will, if appropriate and taking into account the EBA feasibility report, submit to the European Parliament and the Council a legislative proposal for the establishment of a standardised and integrated reporting system for reporting requirements.

The EBA will provide an overview of the quantity and scope of the current data collected by the competent authorities in their jurisdictions and of their origins and granularity. The feasibility study is to include proposals on the establishment of a standard dictionary of the data to be collected, in order to increase convergence and avoid unnecessary reporting requirements.

### The EBA's mandate on a proportionality report on the costs and benefits of the reporting requirements

The revisions to the CRR will introduce an explicit mandate for the EBA to assess the costs and benefits of the reporting requirements laid down in Commission Implementing Regulation (EU) No 680/2014 (ITS on supervisory reporting) and investigate avenues to reducing the reporting burden, at least for small and non-complex institutions.

### Delivering on the first SA-CCR and FRTB CRR2 mandates

Pending the adoption and entry into force of CRR2, in 2019 the EBA will specify in more detail its roadmap and the prioritisation of the work for the implementation of the SA-CCR and FRTB in the EU. This will include the publication for consultation of high-priority deliverables on the SA-CCR and FRTB, as a continuation of the dialogue initiated with the discussion paper on the implementation in the EU of the revised market risk and counterparty credit risk frameworks published in December 2017.

Supplementing EU law with EBA technical standards on key aspects of the revised framework, such as P&L attribution, the risk factor eligibility test and the non-modellable risk factor framework, is expected to pave the way for the harmonised implementation in the EU of FRTB standards by banks, in particular those banks intending to apply for the internal model approach (IMA), as well as for the assessment and timely approval of IMA models by supervisors.

### Considering a new prudential regime for investment firms

The regulation (IFR) and a directive (IFD) on the prudential requirements for investment firms are addressed to the large majority of investment firms authorised under the Markets in Financial Instruments Directive (Mi-

FID). Under the IFD and IFR, investment firms will be subject to a more tailored, simpler and more proportionate set of prudential requirements than the current ones based on the CRD and CRR.

With the adoption of the new prudential regime, the EBA is mandated to provide draft technical standards, guidelines and reports on a broad range of areas, including consolidated supervision, capital composition, capital requirements, liquidity requirements, concentration risk, the SREP, Pillar 2 requirements, remuneration policies, governance, reporting, disclosure and requirements for commodity derivatives firms. Therefore, a substantial effort is expected of the EBA in this area, and it will also engage actively with ESMA and with all the prudential supervisors of MiFID investment firms.

A first consultation paper covering all the aspects concerning the categorisation of investment firms, capital composition, the capital requirements calculations, consolidated supervision and the reporting framework is expected during the fourth quarter of 2019. The EBA is expected to consult the industry on the proposed technical standards, splitting them into several batches and staggering their publication. The EBA will also outline a precise work plan for the forthcoming public consultations on the remaining technical standards and guidelines.

Furthermore, the introduction of the IFD and IFR will make several existing EBA guidelines outdated. Therefore, over a longer time horizon, the EBA is planning to review all the existing guidelines and recommendations applicable to MiFID investment firms, repealing those that have been superseded by the IFR and IFD and maintaining those that are still relevant under the new prudential framework.

## Securitisation — STS EU law

For 2019, the EBA (in line with the applicable legal deadlines) will prioritise those technical standards and guidelines that facilitate the use of internal models for banks investing in securitisation positions. The EBA intends to deliver (i) draft technical standards on the calculation of capital requirements arising from securitised exposures using the purchase receivables approach and (ii) guidelines to determine the weighted-average maturity of a tranche. In addition, the EBA will assess the feasibility of an STS securitisation framework for balance-sheet synthetic securitisations and will issue an opinion on the prudential treatment of NPL securitisations under the new securitisation framework.

The EBA's work will contribute to the key objective of the new securitisation rules, namely reviving a sound and safe EU securitisation market, which will lead to more investment opportunities and increased lending to households and businesses, and will help to ensure financial stability and investor protection.



## Preparing the Basel III implementation in the EU

### Call for advice on the Basel III post-crisis reforms

#### Credit risk framework

The Basel III framework introduces significant changes to the credit risk framework, by redesigning the standardised approach and introducing limitations on the use of internal models under the IRB approach. As part of the work on the response to the call for advice, the EBA is planning to assess the impact of all the above elements and provide advice on the adequate incorporation of the new requirements into the EU legal framework, taking into account the EU's specificities.

In the context of the standardised approach, both the quantitative and the qualitative analyses will be performed mostly by exposure class, with a particular focus on those elements where the Basel III framework allows for optionality. These elements include, in particular, requirements for exposures to institutions, exposures to corporates and exposures secured by immovable properties. Given the significant changes to the treatment of equity exposures and the fact that under the Basel III framework the IRB approach will no longer be available for this type of exposures, this will also be an important element of the analysis. Finally, the impact of the changes to the regulatory conversion factors and to the CRM framework will be measured, taking into ac-

count that these changes may affect exposure values and capital requirements under all approaches.

With regard to the IRB framework, the analysis will focus on assessing the impact of limitations on the scope of modelling and on the estimation outcomes, including the elimination of LGD and conversion factor estimates for certain LDPs, the limitation of conversion factor modelling, and the introduction of input floors on individual estimates of all risk parameters. Furthermore, the impact of the changes to the regulatory values of LGD and conversion factors will be assessed, taking into account the broader use of these regulatory values under the Basel III framework. In addition, it is planned that the response to the call for advice will include a number of targeted recommendations to improve the clarity and consistency of the CRR, based mostly on the issues identified during work on the EBA's IRB roadmap.

#### Counterparty credit risk of SFTs and CVA risk

For the purposes of the call for advice, the EBA will also assess the impact of the Basel III revisions to the calculation of exposure values for counterparty credit risk of securities financing transactions (SFTs), and the impact of the new credit valuation adjustment (CVA) framework. In the context of SFTs, the EBA will also assess in particular the impact of intro-





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## IMPLEMENTING GLOBAL STANDARDS IN THE EU

Global prudential standards are key to ensure a global level playing field for internationally active banks. Their implementation in the EU must be proportionate and mindful of the specificities of the EU banking market. One of our tasks at the EBA is to monitor ex post the implementation of the Basel rules and measure ex ante the impact of the policy proposals on the EU institutions. We have been carrying out monitoring and impact studies on a regular basis right from the introduction of these rules.

The year 2018 was a particularly significant one. In May, we received the European Commission's call for advice on the implementation in the EU of the Basel III framework, which was finalised in December 2017. The main objective of the reform is to reduce the undue variability of risk-weighted assets resulting from the use of banks' internal models for regulatory purposes. In its call, the Commission asked the EBA to prepare a comprehensive analysis assessing the potential impact of the different elements of the Basel reform on the EU banking sector.

To support the European Commission, the EBA launched a data collection and a qualitative survey in order to gather all the relevant data and information needed to effectively assess the implementation of the new framework. The data collection process was particularly challenging for institutions because the data to be collected was on new standards that institutions are in general not familiar with. Indeed, the process was also very challenging for us. The EBA, with the support of the competent authorities, needed to put in a lot of effort to guarantee a sufficient level of representativeness of the sample and ensure adequate data quality. As a member of the team in charge of this exercise, I can now say that, despite all the challenges we faced throughout this exercise, working on this topic is particularly interesting and rewarding because our analysis will contribute to the implementation of the new prudential framework in the EU.

During 2019, we will continue monitoring the implementation of the Basel III reforms and also providing support to the different teams within the EBA by assessing the impact of the numerous technical standards and guidelines they are developing. Furthermore, we will work on the benchmarking of national loan enforcement frameworks (including insolvency frameworks), which are a crucial aspect of the EU roadmap to resolve non-performing loans, as well as on important topics related to sustainable finance.

In my opinion, working in this team is particularly interesting and dynamic, as topics are wide-ranging and always focused on the latest regulatory developments. It also requires team members to quickly grasp the essence of various complex topics, working in close collaboration with the relevant policy experts, statisticians and the members of the EBA committee structure.



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

With regard to CVA risk, the December 2017 Basel III post-crisis reforms include an overhaul of the CVA framework, by which the current methods for the calculation of institutions' own funds requirements for CVA risk will be replaced by new methods. The EBA will assess the impact of introducing the revised framework including the impact of the revised CVA framework for counterparties exempted from the own fund requirement for CVA risk under the CRR.

#### Operational risk framework

Operational risk is one of the most affected areas of the Basel III accord, with the current three approaches — the basic indicator approach, the standardised approach and the advanced measurement approach (AMA) — being replaced by a new standardised approach (BCBS SA), which borrows aspects of the current standardised and internal models-based approaches but also introduces new elements.

The EBA will provide an overview of the use of the current approaches, sources and drivers of operational risk, capital impacts and the application of national discretions, as well as the impact of the introduction of the BCBS SA.

In particular, four directions for work have been identified by the European Commission, namely (i) requirements concerning IT and cyber-risk; (ii) qualitative requirements on governance and organisation around the loss data set for the purposes of the BCBS SA; (iii) an assessment of which requirements currently in force under the AMA should be kept for granular measurement and a forward-looking assessment of operational risk; and (iv) the role of the internal capital adequacy assessment process in strategic decisions and in relation to the Pillar 2 regulatory add-on for operational risk.

#### Output floor

The introduction of the output floor is one of the main elements of the Basel III reforms; it aims to limit the variability of RWAs, which may stem from the use of internal models in the credit and market risk frameworks. The EBA will provide not only an analysis of the impact of the output floor on overall RWAs and capital ratios but also advice on the detailed implementation of the floor, including clarifications necessary to ensure the harmonised application of this measure.

The qualitative considerations will be an important part of the analysis of the implications of the output floor. The call for advice requests in particular that the EBA provide an analysis of the interactions between the output floor and other elements of the prudential framework, such as the leverage ratio, various macroprudential tools and Pillar 2 requirements. In addition, the EBA will consider the potential implications of the output floor with regard to incentives to use modelling approaches for credit risk and market risk.

#### Market risk

For the purposes of the call for advice, the EBA will also assess the impact of the final BCBS standards on the minimum capital requirements for market risk (i.e. the FRTB). These standards were published by the BCBS in January 2019 following the endorsement of the Governors and Heads of Supervision, and introduced targeted revisions to the market risk standards published in January 2016.

The EBA had already provided an assessment of the impact of the 2016 FRTB standards in its response to the Commission's call for advice on the implementation of the SA-CCR and the FRTB in the EU, which was published in November 2016. In response to the call for advice on the Basel III post-crisis reforms, the EBA will complement the previous assessment by analysing the impact of the January 2019 FRTB standards, including the impact of a potential recalibration of the Basel II standardised approach for market risk.

In December 2017, the BCBS reached an agreement on revised prudential standards for credit risk, market risk, CVA risk and operational risk, as well as on the introduction of an aggregate output floor to risk-weighted assets, to be calculated using banks' internal models. The reform, which is to be fully implemented by 2022, aims to reduce undue variability in risk-weighted assets resulting from the use of banks' internal models, while increasing the risk sensitivity of the standardised approaches.

In May 2018, the EBA received from the European Commission a call for advice on the finalised Basel III standards, requiring the EBA to respond to detailed questions on the impact and implementation of the revised standards on the European banking system. The intention was also to take into account proportionality considerations (e.g. the banks' size), the features of EU-specific bank business models and the traditional specificities of the EU prudential regulatory framework.

In the second half of 2018, the EBA launched an extensive and ambitious data collection exercise for a quantitative impact study (QIS), supplemented by a qualitative evidence collection. The work was carried out in parallel with the EBA's regular Basel III monitoring QIS, targeting more than 200 institutions and more than 20 external rating agencies. In the first half of 2019, the EBA will engage in data analysis, policy dis-

cussions and exchange of views with industry stakeholders, with a view to submitting the conclusions of the exercise to the Commission by the end of June 2019.

In the context of this work, the EBA will formulate empirically grounded recommendations to the Commission on the implementation of important elements of the revised Basel III framework. These will include recommendations relating to the role of historical losses in the calculation of regulatory capital for operational risk, the role of external credit ratings in the calculation of regulatory capital for credit risk, the treatment of exposures to SMEs and the implementation of the aggregate output floor.

In line with the regulatory approach developed over the past several years, the EBA works towards a regulatory framework that (i) acknowledges the key role of the risk sensitivity of the banks' internal models, (ii) is characterised by full clarity and transparency vis-à-vis the markets and (iii) remains proportional and as simple as possible. A leading principle of the call for advice is that the EU will comply with the agreed revisions to the Basel III framework, while taking into account the specificities of the EU banking market. Strict adherence to the global standards is an absolute necessity if a well-functioning cross-border banking market characterised by a global level playing field is to be achieved.

## Understanding risks and opportunities arising from financial innovation

### Monitoring financial innovation

The pace of technological change in the provision of financial services requires the EBA to revise its approach to monitoring of innovations. The EBA aims in 2019 to establish an 'innovation radar' to identify and track a broad range of financial innovations, for example the launch of new products or innovative uses of existing products and services.

The EBA will leverage on feedback from three key groups of stakeholders for its innovation monitoring: (i) financial institutions, technology providers and academics, via the EBA FinTech Knowledge Hub activities and by inviting them to provide insights and feedback in workshops and events on various FinTech and innovation topics; (ii) views from national competent authorities on national innovation trends and (iii) internal experts from a wide range of EBA policy areas, who can be involved to identify innovation in their topics on which they focus.

This feedback will lead to a rounded innovation monitoring approach, which can then be used to inform the industry and competent authorities about forthcoming trends and any risks or opportunities arising from them.

In accordance with the EBA FinTech roadmap, the EBA will also continue monitoring the regulatory perimeter and access to the market of FinTech firms with innovative business models and activities, including how the principles of proportionality and flexibility are applied by the competent authorities. A focus on the licensing process will also be part of the core mandates conferred upon the EBA by the CRD V, which will relate to the development of guidelines on a common assessment methodology for the granting of authorisations to credit institutions and a report on the treatment of third country branches under the national laws of Member States.

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

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In the light of the results of the first report, in which payment services were found to be the most disrupted service line, and taking into account the enforcement of PSD2, which is perceived as creating important opportunities for both consumers and institutions, the EBA will be working to assess the impact of FinTech on payment institutions' and e-money institutions' business models.

Incumbents perceive the new FinTech players as a threat to their existing revenue streams from payment services, while opportunities to reduce costs appear rather limited. New business models in the retail payments market are enabled by mobile wallets, which encompass innovative solutions such as mobile banking, biometrics and near-field communication.

Through its further engagement with the industry, the EBA will focus on the impact of FinTech on payment and e-money institutions covering (i) the current and prospective relationships with new players and FinTech startups, (ii) the current status and approach to innovative technologies, (iii) potential threats to the viability of existing business and (iv) the potential impact of Big Tech firms. This work will take the form of a thematic report, which is planned to be released in 2019.

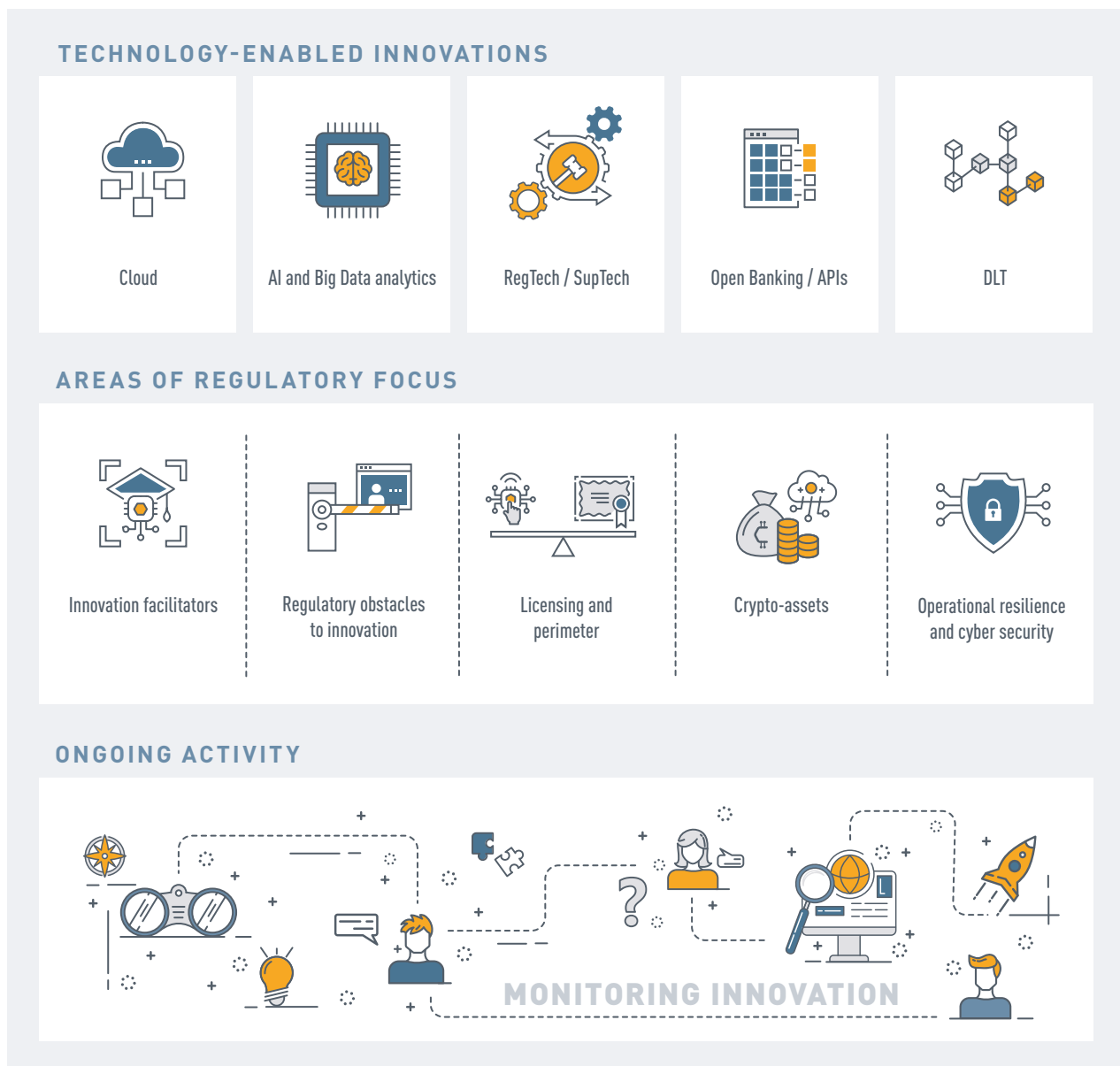
### Report on big data and data analytics

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As the use of digital data is constantly growing across the financial services sector, with the implementation of the General Data Protection Regulation putting personal data into perspective, new challenges appear for supervisors and regulators. EU banks are gradually adopting financial technologies, with around 60% of them currently using big data analytics in their activities and operations, as reported in the EBA's RAQ (December 2018).



Figure 15: 2019 EBA FinTech work programme



Given the level and pace of development, the EBA will be leveraging on existing initiatives, both at national and international level, and interacting with a number of stakeholders (e.g. institutions, academics and technology providers) to better understand the use of big data and data analytics in financial services and identify any potential regulatory and supervisory areas of attention, as well as best practices and principles when it comes to the application and implementation of data analytics by institutions. This work will take the form of a thematic report and it is expected to be published in 2019.

#### Crypto-assets

In 2019, the EBA will continue its work relating to crypto-assets, taking forward the actions identified in its report on crypto-assets. In particular, the EBA will work to support competent authorities in monitoring the crypto-asset activities of banks, investment firms, payment institutions and electronic money institutions through the development of a common template. The EBA will carry out an assessment of these institutions' consumer-facing advertising and disclosure practices regarding crypto-asset products and services.

In addition, the EBA will continue to contribute to BCBS work with regard to the prudential treatment of banks' holdings of/exposures to crypto-assets and will report to the European Commission on the conclusions of this work. The EBA will also continue to monitor crypto-asset activities.

#### Innovation facilitators

On 2 April 2019, the European Commission and the ESAs launched the European Forum for Innovation Facilitators (EFIF). The EFIF is intended to support the scaling up of FinTech across the EU by enhancing cooperation and coordination between national innovation facilitators (regulatory sandboxes and innovation hubs). The EFIF is expected to benefit both competent authorities and firms by helping foster a common supervisory and regulatory response to FinTech and has been established following the ESAs' joint report on regulatory sandboxes and innovation hubs, which recommended action to improve cross-border coordination in this area. Due to the cross-sectoral nature of FinTech, the EFIF is open for participation by all supervisory authorities represented on the boards of the ESAs. For this reason, the responsibilities for the organisation of the EFIF will rotate between the ESAs, with the EBA hosting the EFIF in 2019.

#### Sustainable finance

In March 2018, the European Commission published its action plan on financing sustainable growth,<sup>[28]</sup> setting out an EU strategy on sustainable finance and a roadmap for future work across the financial system. On the back of this plan, the EBA started to work on the area of sustainable finance and green bonds standards in 2018. Sustainable finance aims to integrate environmental, social and governance (ESG) criteria into financial services, and to support sustainable economic growth. It also aims to increase financial actors' awareness of and transparency about the need to mitigate ESG risks through appropriate management, considering in particular the longer term nature of such risks and the uncertainty about their valuation and pricing.

According to the work plan approved by the EBA's Board of Supervisors, in the coming years the EBA will take a proactive stance in fulfilling upcoming tasks and mandates on sustainable finance, including on how ESG considerations can be incorporated into the regulatory and supervisory framework of EU credit institutions.

<sup>[28]</sup> [https://ec.europa.eu/info/publications/180308-action-plan-sustainable-growth\\_en](https://ec.europa.eu/info/publications/180308-action-plan-sustainable-growth_en)



In 2018, the EBA started to contribute to the European Commission's action plan on sustainable finance, in particular through its participation in the relevant technical expert group, and by working on specific deliverables from the action plan focused on disclosure and green bonds. As part of its work programme and in view of existing and future legislative mandates, the EBA is monitoring market practices related to sustainability, and engaging with relevant stakeholders and the industry. In this regard, in April 2019 the EBA and the European Banking Federation will host a workshop on sustainable finance.

The EBA is also conducting market analysis and research on ESG factors and the green bond markets; it aims to identify data needs and start preparatory work on scenario analysis, with the ultimate goal of incorporating sustainability considerations into risk assessment and scenario-based risk analysis.

In December 2018, the EBA joined the Network for Greening the Financial System (NGFS),<sup>[29]</sup> a network of central banks and supervisors whose purpose is to help strengthen the global response required to meet the goals of the Paris Agreement<sup>[30]</sup> and to enhance the role of the financial system in managing environmental and climate-related risks. In 2019, the EBA will contribute to the work undertaken by the NGFS in (i) mapping and monitoring supervisory practices, (ii) analysing whether there is empirical evidence for a differentiation of the financial risk associated with green or brown loans and investments, (iii) outlining the role that central banks and supervisors could play in promoting the scaling up of green finance.

In the future, sustainable finance will continue to be an important area in the EBA's work. Depending on the mandates received from the EU institutions, the EBA could, in particular, assess whether a dedicated prudential treatment of certain assets would be justified and/or incorporate sustainability into specific policy products relating to disclosure, governance, risk management, stress-testing and SREP.

## Operational resilience

Financial institutions provide a number of important services to their customers on local, national and global levels. As a result, any disruption in such a highly integrated network of financial services could potentially have a major adverse impact on the overall stability of the financial sector.

After the previous financial crisis, emphasis was placed on improving the quality of financial sector supervision by creating a single rulebook, establishing single supervisory and resolution frameworks, and increasing institutions' financial resilience by building loss-absorbing capacity.

However, a rather limited focus was placed on the underlying factors behind the critical business services and operations — people, processes and technologies. Regardless of the quality of policies and the effectiveness of risk management practices in place, some disruption will inevitably materialise. Operational resilience addresses the need for institutions to be able to absorb the impact of a major operational disruption and continue to deliver their core services. It covers a number of capabilities, including governance, risk management, continuity of critical services, effective management of third parties and adequate training of staff.

The EBA is closely monitoring the work being carried out at the BCBS on this topic and is reflecting this work in the two joint ESA responses to the European Commission FinTech action plan requests on ICT risks. These two requests relate to two joint advice notices on (i) potential legislative improvements on ICT risks and (ii) the costs and benefits of developing a coherent cyber-resilience testing framework for significant market participants and infrastructures within the whole EU financial sector. The EBA, together with the other ESAs, began this work in 2018, and it will be finalised and submitted to the European Commission in April 2019.

<sup>[29]</sup> <https://www.banque-france.fr/en/financial-stability/international-role/network-greening-financial-system>

<sup>[30]</sup> [https://unfccc.int/sites/default/files/english\\_paris\\_agreement.pdf](https://unfccc.int/sites/default/files/english_paris_agreement.pdf)

## Collecting, disseminating and analysing banking data

### Feasibility study for an integrated European reporting framework



#### EUCLID: towards full coverage of the EU banking population in supervisory reporting

EUCLID continues to be one of the EBA's highest level priorities for 2019, with the aim of improving the efficiency and quality of the collection, analysis and dissemination of banks' supervisory data. With the platform in place to collect the institutions' master data for the EBA registers, which will also support the collection of supervisory data, the focus of the work will shift to building up a platform to collect all structured banking supervisory data. This includes COREP and FINREP data, as well as data on funding plans and on supervisory benchmarking of internal models.

The platform will be a reliable, secure and efficient data hub, which will collect supervisory data from EEA competent authorities for all EEA credit institutions and banking groups. It will reduce the reporting burden on national competent authorities, with a reduction in ad hoc data collections (due to the larger sample of institutions) and the provision of additional services that the EBA would not have been able to offer without the EUCLID platform.

The EBA is a data-driven institution, and the new platform will also allow it to carry out deeper analyses of the banking sector, increase transparency and help monitor the risks to the European banking system as a whole. In addition, the EUCLID project will support the creation of a harmonised regulatory and supervisory banking framework in the EU, providing data to assist with policy-making decisions around the Single Rulebook.

In ensuring the efficiency of the supervisory data collection platform and the processes involved, EBA teams from different business areas will cooperate with the national com-

petent authorities and the ECB. The collaboration will continue to be supported by the Task Force on EUCLID Implementation and its technical workstreams.

### Resolution data

The EBA is required to collect information for the purposes of resolution plans for credit institutions and investment firms in accordance with Regulation (EU) 2018/1624. This information is required for the EBA to be able to monitor and assess market developments and contribute to a common supervisory culture.

This information must be reported annually by the resolution authorities to the EBA. The first transmission of data to the EBA is expected to occur in the second half of 2019, with the reference date of December 2018.

The year 2019 is as a phase-in stage, and the data collection will have a limited scope. In particular, there is likely to be flexibility in terms of the timeline and data to be reported.

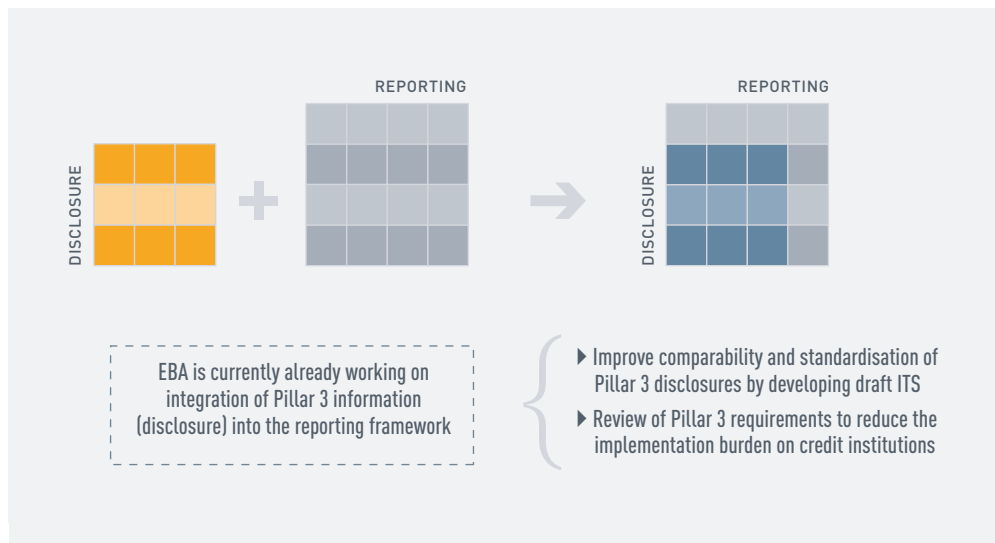
In the following years, resolution authorities will be expected to report data to the EBA by May each year, with the data referring to the last day of the previous calendar year or of the relevant financial year.

### Supervisory reporting on Pillar 3

The EBA is fully committed to promoting transparency and market discipline in the European banking sector. For this purpose, and in addition to our role as a centralised data hub for the disclosure of bank-by-bank data in the stress test and transparency exercises, the EBA also has a predominant role in supporting institutions in the disclosure of prudential information as part of their Pillar 3 reports.

The EBA's work in this regard during 2019 will be to prepare a new single and comprehensive set of ITS that will include all the Pillar 3 disclosure templates and tables applicable to EU institutions. The EBA is developing these ITS on the basis of the legal mandate included in CRR2 and seeking, at the same time, alignment with the BCBS international standards.

**Figure 16:** EBA work on supervisory reporting and Pillar 3



In addition, and with the purpose of alleviating the disclosure burden for institutions and ensuring the accuracy of the information disclosed, the EBA is developing the Pillar 3 framework in integration with supervisory reporting. Institutions should be able to extract from their supervisory reporting the information that they have to disclose and, conversely, supervisors should be able to check institutions' public disclosures against the data that they receive in supervisory reporting.

### The 2019 EU transparency exercise

In 2019, the EBA will conduct the transparency exercise for the sixth time. The data disclosure will follow the same standards as in the previous years and, similarly to what was done for the 2018 exercise, the templates will be adjusted due to the introduction of the new accounting framework (IFRS 9). Publication is expected in early December 2019, along with the risk assessment report and interactive tools for data analysis.

### Data exploitation tools: a focus on data analytics

With the continued and expected increase in the volume of collected data, the EBA continues to be a data-driven institution. After guaranteeing that data are securely and efficiently stored and integrated, the next challenge is to ensure the quality, usability, analysis and dissemination of data. In fact, data quality has

always been at the heart of the EBA's data life cycle. From the publication of the first reporting requirements to the moment of data archival and across each of the different phases, various checks and validations are performed to guarantee the quality of the data. It is good to note that, with the evolution and maturity of the reporting platform, the importance attributed by the EBA to data quality is clearly paying off. Particularly noticeable is the consistently diminishing number of resubmissions of reports, which makes it possible to gain an idea of the final figures of an institution from the first submission of data, allowing prompter analysis and enabling further action to be taken if needed.

The EBA is well aware of the effort and costs incurred by the various reporting entities in providing the most accurate and comprehensive data. For this reason, the EBA will continue to improve its analytics infrastructure to make it possible to explore and analyse all the reported data. More specifically, the EBA has been developing state-of-the-art analytical, exploratory and reporting tools that allow a more global, accurate, timely and in-depth overview of the banking sector all across Europe. Since the EBA also believes in the transparency and reusability of data, it has published high-level tools with user-friendly interfaces, used by banks, market analysts, academics and international organisations in their assessments of EU banks (i.e. the transparency exercise dashboard and the stress test, the former published in December 2018 and the latter in November 2018).

## Monitoring the implementation and convergence of resolution and prudential policies

### IFRS 9 modelling and IRB implementation

#### IFRS 9 benchmarking exercise

Understanding the practices followed by banks with regard to IFRS 9 modelling will be a key area of focus for the EBA in 2019 and the following years. This exercise is essential from a supervisory perspective, as the results of the IFRS 9 modelling performed by banks are ultimately reflected in the expected credit losses calculations, thus impacting prudential figures.

The EBA is currently investigating how to better plan its activities in this area, with a particular focus on the possibility of developing a benchmarking exercise for IFRS 9. Such an initiative could be a good starting point for identifying relevant inconsistencies that can lead to excessive/undue variability in the prudential figures. Given the complexity of such a project, and the need for it to be based on a good understanding of all relevant implementation aspects, reaching any conclusions in this area would be a medium- to long-term objective.

### Fostering the increase of the loss-absorbing capacity of the EU banking system

#### Quantitative and qualitative MREL monitoring

The EBA has a mandate to monitor the implementation of MREL to ensure that all relevant entities are set MREL but also that these decisions are in line with the legislation. The EBA also monitors the build-up of resources against these requirements and resulting shortfalls. In light of the progress in MREL setting, the EBA has been updating its methodology for quantitative monitoring of MREL resources. This will feed into regular updates to the European Commission on the impact of MREL on the European Financial Sector, with a first report expected by the end of 2019.

The upcoming amended CRR is expected to expand the existing EBA role in monitoring the quality of own funds (Article 80 of the CRR) to cover MREL TLAC eligible liabilities. In the second half of 2018, the EBA started preparations for this new task. In particular, the methodology used to monitor AT1 instruments will be applied to the new area.



## Identifying and analysing trends and potential risks and vulnerabilities, and supporting efforts to resolve non-performing loans

### Preparing for the 2020 stress test exercise and beyond

In December 2018, the Board of Supervisors decided to carry out the next EU-wide stress test in 2020, in line with its previous decision to aim for a biennial exercise. Leveraging on the lessons learned from the 2018 exercise, the EBA has already started to prepare the meth-

odology for the 2020 stress test exercise and plans to initiate a discussion with stakeholders about possible longer term changes to the EU-wide stress test.

Risks and vulnerabilities in the EU banking sector will continue to be jointly monitored by the competent authorities and the EBA, as part of their regular assessment of banks.



**Dragan Crnogorac**

BANK SECTOR ANALYST



### THE 2020 STRESS TEST

The EBA Stress Test Team has commenced its work on the 2020 stress test exercise. In fact, in January 2019, the EBA organised a workshop with banks participating in the 2018 EU-wide stress test to collect their feedback, including lessons learned, on the 2018 exercise. Our plan is to organise another such meeting after we publish for consultation the draft 2020 EU-wide stress test methodology and templates, at the beginning of summer 2019.

In parallel with the preparations for the 2020 exercise, the EBA will also kick off a discussion on possible longer term changes to the EU-wide stress test, as recommended by the Board of Supervisors in December 2018. The objective of this work would be to draft a discussion paper with options for the future of the EU-wide stress test, which will be presented to the Board of Supervisors at the end of 2019. The discussion paper will benefit from interaction and exchange of views between the EBA, the EU competent authorities and relevant stakeholders, including banks, investors, analysts and academics.



## Contributing to the Commission's action plan on sustainable finance

The European Commission's action plan on sustainable finance will keep driving the EBA's activities during this area for the coming years.

In the short term, the action plan calls on the ESAs to provide guidance on how sustainability considerations can be effectively taken into account in drafting relevant EU financial services legislation, and to promote convergence on the actual implementation of sustainability considerations in relevant EU legal provisions.

The European Commission published its first legislative proposals<sup>[31]</sup> on sustainable finance, implementing several key actions announced in its action plan, on 24 May 2018; these include three regulations – on taxonomy, disclosure for institutional investors and benchmarks – and two amendments to delegated acts under MiFID II and the Insurance Distribution Directive.

As part of the work needed to implement the action plan, the EBA actively contributes to two relevant working groups: the European Commission's Technical Expert Group on Sustainable Finance (TEG) and the Member States' Expert Group on Sustainable Finance. The TEG's mandate is to provide technical advice to the European Commission in relation to four key areas of the action plan:

- a) An EU taxonomy or classification system of climate change mitigation, climate change adaptation and other environmental activities, on the basis of the regulation published by the Commission on May 2018:<sup>[32]</sup> the TEG sought feedback on its first proposals at the beginning of 2019 and its report on taxonomy is due to be published in June 2019.
- b) An EU Green Bond Standard: the TEG will present its report to the European Commission in June 2019, after taking into account the feedback from the public consultation on its interim report, published in March 2019.

- c) A category of 'low carbon' indices for use by asset and portfolio managers as a benchmark for a low carbon investment strategy: this would be based on the regulation<sup>[33]</sup> published by the Commission on May 2018.

- d) A set of metrics allowing improved disclosure on climate-related information: the TEG published in January 2019 its final report, which will be taken into account by the European Commission in the revision of the non-binding guidelines of the Non-Financial Reporting Directive governing disclosure of ESG-related information. The European Commission is expected to publish its updated guidelines in June 2019.

In 2019, as part the European Commission's action plan, the EBA (with ESMA and EIOPA) will deliver a report on potential undue short-term pressure from capital markets on corporations. The call for advice asks the three ESAs to include in their report initial evidence of undue short-termism, an assessment of possible drivers of undue short-termism, an account of areas in existing regulations that contribute to mitigating or exacerbating undue short-termism, and recommendations building on the evidence found.

Finally, the European Commission also published, in May 2018, a proposal for a regulation<sup>[34]</sup> on disclosure of sustainable investments and sustainability risks, amending Directive (EU) 2016/2341. This draft regulation addresses the following issues:

- a) requirements on how institutional investors integrate ESG factors into their risk processes;
- b) harmonised rules on the transparency to be applied by financial market participants, insurance intermediaries that provide insurance advice with regard to insurance-based investment products, and investment firms.

<sup>[31]</sup> [https://ec.europa.eu/info/publications/180524-proposal-sustainable-finance\\_en#investment](https://ec.europa.eu/info/publications/180524-proposal-sustainable-finance_en#investment)

<sup>[32]</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52018PC0353>

<sup>[33]</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52018PC0355>

<sup>[34]</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52018PC0354>



Under this draft regulation, there will be four mandates for technical standards to be developed by the ESAs through their Joint Committee, in particular RTS on (i) pre-contractual disclosure, (ii) content of website information, (iii) content and presentation of information in periodical reports, and ITS on standard presentation of information on sustainable finance (marketing communication). The technical standards will have to be delivered 18 months after the date of entry into force of the regulation. Depending on the outcome of the legislative proceedings, the EBA is ready to start the preparatory work in 2019.

In the longer term, the Commission has proposed setting up a more stable governance structure to replace the TEG<sup>[35]</sup>. This would take the form of a public-private platform bringing together experts and market participants from the private sector with public sector bodies, such as the ESAs, the European Environmental Agency, the European Investment Bank and Eurostat. This platform would monitor key developments to ensure the progressive scaling up and the adaptability of the EU sustainability taxonomy, and would play a role in monitoring capital flows towards sustainable investment.

<sup>[35]</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52018PC0353>

## Improving AML/CFT supervision and enhancing cooperation

Jointly with ESMA and EIOPA, the EBA will continue to enhance supervisory cooperation across the EU by publishing final guidelines on supervisory cooperation and information exchange. The three ESAs will also continue to explore links between AML/CFT and prudential supervision, with the intention of developing better cooperation between supervisors. To begin this task, the EBA will develop and support the conclusion of a multilateral agreement on the practical modalities for exchange of information between the ECB and all AML/CFT competent authorities.

Furthermore, the ESAs will advance their work on ML/TF risks with the publication of a second joint opinion on ML/TF risks, as mandated under Article 6(5) of the Anti-Money Laundering Directive, and will revise the existing risk factor guidelines, which were published in June 2017.

The EBA will also complete the preliminary investigations that it has started into claims against several national authorities that there

has been a BUL, and will launch a programme of staff-led AML/CFT reviews of national approaches to AML/CFT supervision, which will focus on assessing the effectiveness of supervisory practices in each EU Member State.

In fulfilment of the Council of the European Union's action plan on AML/CFT, the EBA will complete the tasks assigned to it, including the development of guidance on how to factor AML/CFT-related aspects into the prudential supervisory process; the revision of the existing Risk-based supervision guidelines; and an assessment of the feasibility of twinning programmes for staff exchanges between AML supervisory authorities.

Finally, the EBA will continue to progress its work in relation to FinTech, focusing in particular on the adequacy of legislative provisions governing virtual assets, and will carry out an analysis of any obstacles embedded in the EU AML/CFT legislation that are preventing cross-border business.

## Protecting consumers and contributing to secure and easy retail payments in the EU

### Protecting consumers

The EBA will continue to increase protection for consumers who use retail banking products and services such as mortgages, personal loans, deposits (including structured deposits), payment accounts, payment services and electronic money. In so doing, the EBA promotes transparency, simplicity and fairness in consumer financial products and services across the Single Market.

To that end, the EBA will organise a panel on financial education at the Joint ESAs Consumer Protection Day, to be held on 28 June 2019, publish brief consumer information leaflets, hold an EBA financial education workshop and work throughout 2019 to publish a second report on financial education in the first quarter of 2020, with the aim of coordinating national initiatives on financial education.

The EBA will also publish the 2018/19 edition of the consumer trends report (CTR), which will be more extensive than previous editions, as it covers two years instead of one and provides a comprehensive quantitative assessment of trends in the development of and a qualitative description of the issues related to those retail banking products or services within the scope of the EBA's work on consumer protection. The CTR also outlines the topical issues that the EBA has identified as being relevant to consumers in the EU, and it will be used as a basis for setting out the EBA's work priorities on the consumer protection for the following years.

The EBA will also progress its work on enhancing convergence in supervisory practices aimed at protecting consumers with the development of good practices for firms to comply with the EBA guidelines on product oversight and governance.

Finally, the EBA will start working on a review of the RTS on professional indemnity insurance for credit intermediaries, as mandated under the MCD, and will extend its Q&A tool to the MCD.

### Contributing to a consistent implementation of PSD2

As a key part of its general supervisory convergence work, the EBA will contribute to the smooth and consistent implementation of PSD2 and the 13 technical standards and guidelines it has developed in support of the directive. More specifically, the EBA will monitor the consistent application of the RTS on SCA and CSC under PSD2 and the application of the EBA guidelines on the conditions to benefit from an exemption from the fall-back mechanism, including the consultation role foreseen for the EBA in the process.

To that end, the EBA will set up a working group on APIs under PSD2, with the aim of identifying issues that will emerge as the industry prepares for compliance with these RTS; the EBA will then ask external stakeholders to make suggestions about how these issues could be resolved, which national authorities and the EBA will consider.

The EBA will also continue to respond to the questions it receives via its Q&A tool on the interpretation of PSD2 and the EBA's technical standards and guidelines.

The Authority will also assess the major incident reports received from competent authorities under the EBA guidelines on incident reporting and decide on any follow-up actions that may need to be taken.

Finally, the EBA will go live with its central electronic register under PSD2, which will be a freely accessible and reliable source of consistent and aggregated information on several thousand payment and e-money institutions and more than 150 000 agents within the EU.

### Protecting depositors

In 2019, the EBA will fulfil its mandate under Article 19(6) of the DGSD and support the European Commission in the context of the report on the implementation of the DGSD. To

that end, the EBA aims to publish three opinions with recommendations to the European Commission on (i) DGS payouts, (ii) DGS funding and uses of DGS funds, and (iii) eligibility, coverage and cooperation between DGSs.

The EBA will also continue working on an opinion on deposit protection issues stemming from the withdrawal of the UK from the EU,

with the aim of ensuring that, in the event of a no-deal withdrawal, depositors continue to be protected. The EBA intends to publish the opinion ahead of the UK's withdrawal from the EU.

Finally, the EBA will fulfil the annually recurring tasks conferred on it in its founding regulation and the DGSD, including the publication of the information mentioned above.

## Ensuring the smooth relocation of the EBA to Paris

The EBA's seat will officially change on 30 March 2019. Full operations in Paris will start on 3 June 2019, when all staff will take up their duties at the EBA's new headquarters in the Europlaza building.

The last phase of the data centre migration from the UK will be completed by March 2019.

Specific arrangements will be applied during the interim period April-May 2019 with the aim of keeping to a minimum the disruption for EBA staff. Senior management will be operating from Paris, where major meetings will take place, thanks to the support of the Banque de France.

During 2019, the EBA will focus on establishing a productive connection with the Office of Protocol and Customs to assist staff in registering with the French authorities.

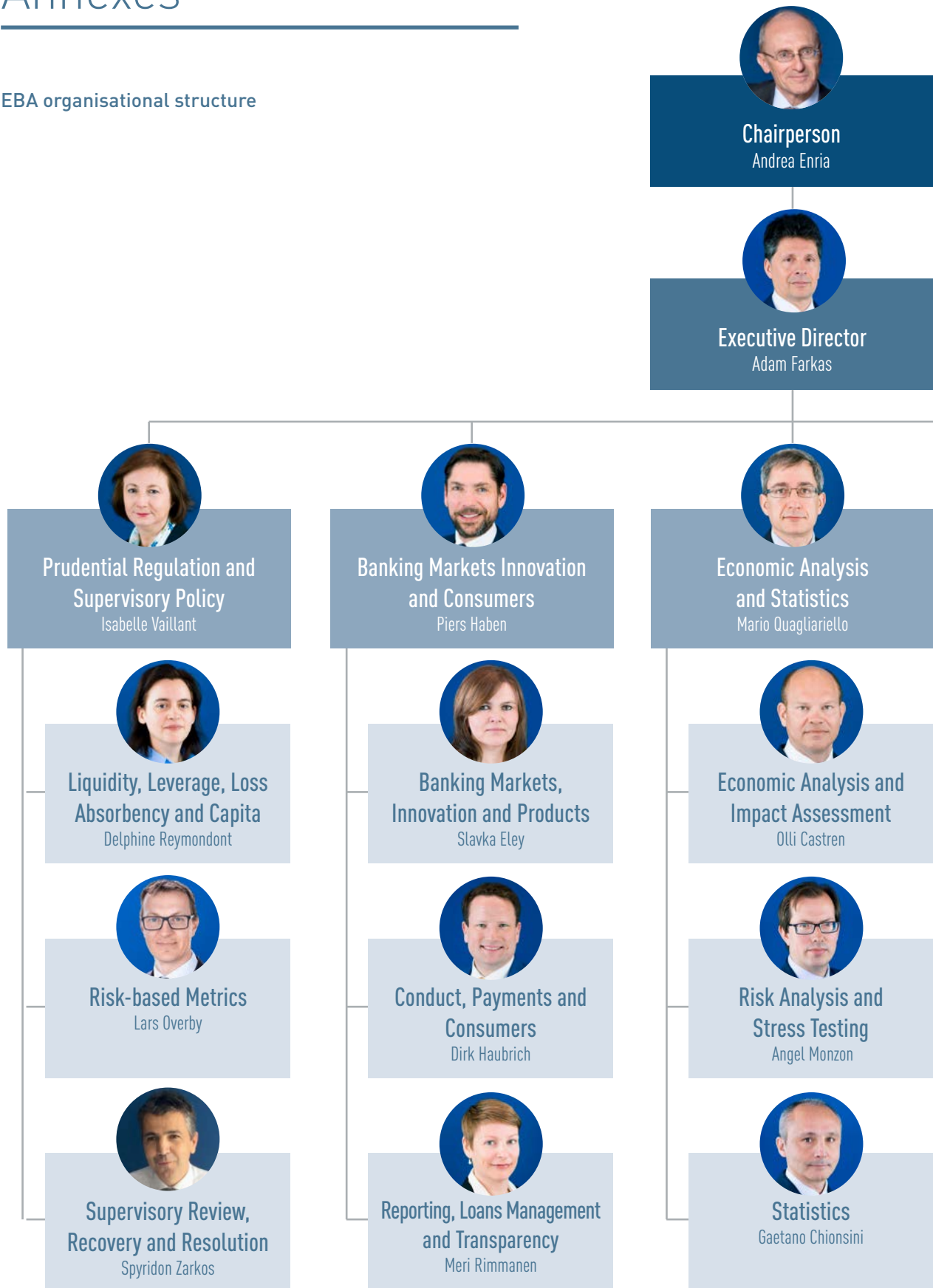
An inauguration event will be organised in June to welcome staff to Paris and officially present the EBA to the press.

The last phase of the relocation project will be the closure of UK operations and the London premises, involving pre- and post-move inventory exercises, disposal of inventory items, and consultations with a property adviser regarding possible subletting of the UK premises.



# Annexes

## EBA organisational structure



Composition as of 31 December 2018.



**Accounting Officer**  
Yves Lecoanet



**Policy Coordination**  
Philippe Allard

**Communications**



**Legal Services**  
Jonathan Overett Somnier



**Operations**  
Peter Mihalik



**Corporate Support**  
Katerina Karypidou



**Finance and Procurement**  
Fergus Power



**Human Resources**  
Aneta Al Hafoudhova



**Information Technology**  
Radu Burghilea

## Board of Supervisors

## VOTING MEMBERS

COUNTRY	INSTITUTION	TYPE OF MEMBERSHIP	NAME
Austria	Österreichische Finanzmarktaufsicht	Head	Helmut Ettl
		Alternate	Michael Hysek
Belgium	Nationale Bank van België/Banque Nationale de Belgique	Head	Jo Swyngedouw
		Alternate	David Guillaume
Bulgaria	Bulgarian National Bank	Head	Dimitar Kostov
		Alternate	Stoyan Manolov
Croatia	Hrvatska Narodna Banka	Head	Martina Drvar
		Alternate	Sanja Petričić Turković
Cyprus	Central Bank of Cyprus	Head	Stelios Georgakis
		Alternate	Elena Gregoriadou
Czechia	Česká Národní Banka	Head	Zuzana Silberová
		Alternate	Marcela Gronychová
Denmark	Finanstilsynet	Head	Jesper Berg
		Alternate	Carsten Kjær Joensen
Estonia	Finantsinspektsioon	Head	Andres Kurgpõld
		Alternate	Kilvar Kessler
Finland	Finanssivalvonta	Head	Anneli Tuominen
		Alternate	Jyri Helenius
France	Autorité de Contrôle Prudentiel et de Résolution	Head	Édouard Fernández-Bollo
		Alternate	Frédéric Visnovsky
Germany	Bundesanstalt für Finanzdienstleistungsaufsicht	Head	Raimund Roeseler
		Alternate	Peter Lutz
Greece	Bank of Greece	Head	Spyridoula Papagiannidou
		Alternate	Kyriaki Flesio-poulou
Hungary	Magyar Nemzeti Bank	Head	Csaba Kandrács
		Alternate	Gábor Gyura
Ireland	Central Bank of Ireland	Head	Ed Sibley
		Alternate	Gerry Cross
Italy	Banca d'Italia	Head	Luigi Federico Signorini
		Alternate	Andrea Pilati
Latvia	Finanšu un Kapitāla Tirgus Komisija	Head	Gunta Razāne
		Alternate	Ludmila Vojevoda
Lithuania	Lietuvos Bankas	Head	Vytautas Valvonis
		Alternate	Renata Bagdoniene
Luxembourg	Commission de Surveillance du Secteur Financier	Head	Christiane Campill
		Alternate	Martine Wagner
Malta	Malta Financial Services Authority	Head	Marianne Scicluna
		Alternate	Ray Vella
Netherlands	De Nederlandsche Bank	Head	Maarten Gelderman
		Alternate	Sandra Wesseling

COUNTRY	INSTITUTION	TYPE OF MEMBERSHIP	NAME
Poland	Komisja Nadzoru Finansowego	Head	Mateusz Mokrogulski
		Alternate	Mariusz Hajduk
Portugal	Banco de Portugal	Head	Elisa Ferreira
		Alternate	Pedro Duarte Neves
Romania	Banca Națională a României	Head	Nicolae Cinteza
		Alternate	Adrian Cosmescu
Slovakia	Národná Banka Slovenska	Head	Vladimír Dvořáček
		Alternate	Tatiana Dubinová
Slovenia	Banka Slovenije	Head	Marko Bošnjak
		Alternate	Damjana Igljič
Spain	Banco de España	Head	Jesús Saurina Salas
		Alternate	Alberto Ríos Blanco
Sweden	Finansinspektionen	Head	Martin Noréus
		Alternate	Björn Bargholtz
UK	Bank of England's Prudential Regulation Authority	Head	Sam Woods
		Alternate	Charlotte Gerken

#### EEA/EFTA MEMBERS

Iceland	Fjármálaeftirlitið	Member	Jon Thor Sturluson
		Alternate	Finnur Sveinbjörnsson
Liechtenstein	Finanzmarktaufsicht Liechtenstein (FMA)	Member	Patrick Bont
		Alternate	Markus Meier
Norway	Finanstilsynet	Member	Morten Baltzersen
		Alternate	Ann Viljugrein
-	EFTA Surveillance Authority	Member	Frank Büchel
		Alternate	Gunnar Thor Pétursson

#### OBSERVERS

INSTITUTION	NAME
SRB	Dominique Laboureix

#### OTHER NON-VOTING MEMBERS

ESMA	Verena Ross
EIOPA	Fausto Parente
ECB	Fátima Pires, Carmelo Salleo
ECB Supervisory Board	Korbinian Ibel
European Commission	Martin Merlin, Dominique Thienpont
ESRB	Francesco Mazzaferro

## Management Board

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

Two new members, representing the German and the Spanish competent authorities, joined

the Management Board in 2018. At the end of December 2018, the Management Board was composed of four members from participating SSM Member States (France, Germany, Italy and Spain) and two members from non-participating SSM Member States (Denmark and Sweden). The Board of Supervisors considered this representation balanced and proportionate, reflecting the Union as a whole.

The Management Board met four times in 2018. To guarantee the transparency of its decision-making, the minutes of the Management Board's meetings are published on the EBA website.

### COMPOSITION AS AT END 2018

COUNTRY	INSTITUTION	MEMBER
Denmark	Finanstilsynet	Jesper Berg
France	Autorité de Contrôle Prudentiel et de Résolution	Édouard Fernández-Bollo
Germany	BaFin	Raimund Roeseler
Italy	Banca d'Italia	Luigi Federico Signorini
Spain	Banco de España	Jesús Saurina Salas
Sweden	Finansinspektionen	Martin Noréus
–	European Commission	Olivier Guersent
–	European Banking Authority	Jo Swyngedouw



## Banking Stakeholder Group

MEMBER	SELECTED TO REPRESENT	INSTITUTION	POSITION	COUNTRY
Gerda Holzinger-Burstaller	Credit institutions	Erste Group Bank	Head of Group, Secretariat	AT
Thaer Sabri	Credit institutions	Electronic Money Association	CEO	UK
Ernst Eichenseher	Credit institutions	Unicredit	Head of Group, Credit Risk Modelling	DE
Herve Guider	Credit institutions	EACB	General Manager	FR
Sabine Masuch	Credit institutions	Association of Private Bausparkassen	Legal consultant and Head of the Ombudsman's office	DE
Sergio Lugaresi	Credit institutions	Italian Banking Association	Consultant	IT
Søren Holm	Credit institutions	Nykredit	CRO	DK
Lara De Mesa Garate	Credit institutions	Banco Santander	Head of Public Policy	ES
Veronique Ormezzano	Credit institutions	BNP Paribas	Head of Group, Prudential Affairs	FR
Jean Naslin	Credit institutions	Caixa Bank	Head of Public Affairs	FR
Andrea Sita	Employees	Fondo Pensione Complementare	Substitute auditor	IT
Leonhard Regneri	Employees	INPUT Consulting	Consultant	DE
Giedrius Steponkus	Users of banking services	Lithuanian Investors Association	Board member	LT
Lyubomir Karimansky	Users of banking services	European Payments Council	Member of the Management Board	BG
Tomas Kybartas	Consumers	Alliance of Lithuanian Consumer Organisations	Lawyer	LT
Martin Schmalzried	Consumers	COFACE — Confederation of Family Organisations in the EU	Policy officer	CZ
Mike Dailly	Consumers	Govan Law Centre	Solicitor Advocate	UK
Fily Anne	Consumers	Finance Watch	Executive Director	FR
Dermott Jewell	Consumers	Consumers' Association of Ireland	Adviser	IE
Vinay Pranjivan	Consumers	Portuguese Consumer Association (DECO)	Expert	PT
Victor Cremades Erades	Consumers	Association of Consumers and Users of Banks, Savings Banks, Financial Products and Insurance (ADICAE)	Lawyer	ES
Monika Marcinkowska	Top-ranking academics	University of Lodz	Professor of Finance	PL
Luigi Guiso	Top-ranking academics	Eunadi Insitute for Economics and Finance	Professor of Household Finance and Insurance	IT
Angel Berges-Lobera	Top-ranking academics	Universidad Autonoma de Madrid	Professor of Finance	ES
Emilios Avgouleas	Top-ranking academics	University of Edinburgh	Professor of International Banking Law and Finance	EL
Marko Košak	Top-ranking academics	University of Ljubljana	Professor of Finance	SI
Edgar Löw	Top-ranking academics	Frankfurt School of Finance	Professor of Accounting	DE
Angelo Baglioni	Top-ranking academics	Università Cattolica del Sacro Cuore Largo Gemelli	Professor of Economics	IT
André Prüm	Top-ranking academics	University of Luxembourg	Professor of Financial and Business Law	LU
Rym Ayadi	Top-ranking academics	CAAS Business School	Honorary professor	TN

## Resolution Committee

**ResCo Chairman:** Dominique Laboueix

### VOTING MEMBERS

COUNTRY	INSTITUTION	TYPE OF MEMBERSHIP	NAME
Austria	Österreichische Finanzmarktaufsicht	Head	Klaus Kumpfmüller
		Alternate	Oliver Schütz
Belgium	Nationale Bank van België/Banque Nationale de Belgique	Head	Pierre Wunsch
		Alternate	Gregory Nguyen
Bulgaria	Bulgarian National Bank	Head	Emilia Dimitrova
		Alternate	-
Croatia	Hrvatska Narodna Banka	Head	Roman Šubić
		Alternate	Lidija Pranjić
Cyprus	Central Bank of Cyprus	Head	Michalis Stylianou
		Alternate	Panayiotis Vlamis
Czechia	Česká Národní Banka	Head	Radek Urban
		Alternate	Tomáš Kahoun
Denmark	Finansiel Stabilitet	Head	Henrik Bjerre-Nielsen
		Alternate	Marianne Simonsen
Estonia	Finantsinspeksioon	Head	Riin Heinaste
		Alternate	Angelina Mihhaljova
Finland	Financial Stability Authority	Head	Tuija Taos
		Alternate	Reima Letto
France	Autorité de Contrôle Prudentiel et de Résolution	Head	David Blache
		Alternate	Ben Konaré
Germany	Bundesanstalt für Finanzdienstleistungsaufsicht	Head	Thorsten Pötzsch
		Alternate	Manfred Heemann
Greece	Bank of Greece	Head	Maria Mavridou
		Alternate	Eleni Statiri
Hungary	Magyar Nemzeti Bank	Head	Judit Matussek
		Alternate	Krisztina Mohacsi
Ireland	Central Bank of Ireland	Head	Wesley Murphy
		Alternate	John Biggins
Italy	Banca d'Italia	Head	Bruna Szego
		Alternate	Roberto Cercone
Latvia	Finanšu un Kapitāla Tirgus Komisija	Head	Jelena Lebedeva
		Alternate	Janis Placis
Lithuania	Lietuvos Bankas	Head	Tomas Garbaravičius
		Alternate	Vaida Česnulevičiūtė
Luxembourg	Commission de Surveillance du Secteur Financier	Head	Romain Strock
		Alternate	Joëlle Martiny
Malta	Malta Financial Services Authority	Head	Aldo Giordano
		Alternate	Roberta Victoria Buhagiar

COUNTRY	INSTITUTION	TYPE OF MEMBERSHIP	NAME
Netherlands	De Nederlandsche Bank	Head	Nicole Stolck-Luyten
		Alternate	Marc Roovers
Poland	Bankowy Fundusz Gwarancyjny	Head	Zdzisław Sokal
		Alternate	Krzysztof Broda
Portugal	Banco de Portugal	Head	João Freitas
		Alternate	João Marques
Romania	Banca Națională a României	Head	Emil Vonvea
		Alternate	Beatrice Popescu
Slovakia	Rada pre riešenie krízových situácií	Head	Júlia Čillíková
		Alternate	Peter Penzes
Slovenia	Banka Slovenije	Head	Peter Kupljen
		Alternate	Mišo Drobež
Spain	Fondo de Reestructuración Ordenada Bancaria (FROB)	Head	Javier Torres
		Alternate	Paula Conthe
Sweden	Riksgälden	Head	Hans Lindblad
		Alternate	Pär Holmbäck Adelwald
UK	Bank of England	Head	Sasha Mills
		Alternate	Adam Cull

#### EEA/EFTA MEMBERS

Iceland	Fjármálaeftirlitið	Member	Gísli Örn Kjartansson
		Alternate	Linda Kolbrún Björgvinsdóttir
Liechtenstein	Finanzmarktaufsicht Liechtenstein (FMA)	Member	Dominik Haeuptle
		Alternate	Johannes Kueng
Norway	Finanstilsynet	Member	Ole-Jørgen Karlsen
		Alternate	Knut Lykke

#### OTHER NON-VOTING MEMBERS

INSTITUTION	TYPE OF MEMBERSHIP	NAME
ECB	Observer	Paul Disveld, Eleni Angelopoulou
European Commission	Observer	Marie Donnay, Emiliano Tornese
SRB	Observer	Nadège Jassaud
ESRB	Observer	No official representative. Ad hoc participation
ESMA	Observer	Ms. Amandine Zelenko, Boryana Stoeva-Dimitrova
EIOPA	Observer	No official representative. Ad hoc participation.

## Budget summaries

The amended budget for 2018 is published in the *Official Journal* of the EU<sup>(36)</sup>.

## Establishment plan

Category and grade	Establishment plan in EU budget 2018		Modifications in 2018 in application of flexibility rule*	
	Officials	TA	Officials	TA
AD 16		1		
AD 15		1		
AD 14		2		
AD 13		2		
AD 12		8		
AD 11		12		
AD 10		12		
AD 9		18		
AD 8		26		+2
AD 7		20		+1
AD 6		18		
AD 5		14		
<b>Total AD</b>		<b>134</b>		<b>139</b>
AST 11		0		
AST 10		0		
AST 9		0		
AST 8		0		
AST 7		0		
AST 6		3		
AST 5		4		
AST 4		2		-1
AST 3		1		-1
AST 2		1		-1
AST 1		0		
<b>Total AST</b>		<b>11</b>		<b>6</b>
AST/SC 6		0		
AST/SC 5		0		
AST/SC 4		0		
AST/SC 3		0		
AST/SC 2		0		
AST/SC 1		0		
<b>Total AST/SC</b>		<b>0</b>		
<b>TOTAL</b>		<b>134</b>		<b>145</b>

\* In line with Article 32(1) of the framework Financial Regulation, the Management Board may modify, under certain conditions, the establishment plan by in principle up to 10% of posts authorised, unless the financial rules of the body concerned allows for a different percentage rate.

<sup>(36)</sup> <http://www.eba.europa.eu/about-us/budget-and-accounts>

## INFORMATION ON THE ENTRY LEVEL FOR EACH TYPE OF POST: INDICATIVE TABLE

Key functions	Type of contract	Function group, grade of recruitment
Head of Department, Deputy Director, etc.	TA	AD 12
Head of Unit, Head of Business Area	TA	AD 10
Head of Sector	n/a	n/a
Senior Officer, Senior Specialist, etc.	TA	AD 8-9
Officer, Specialist	TA/CA	AST 4/AD 6-7-8
Junior Officer	TA	AD 5
Senior Assistant	CA	FG III
Junior Assistant	n/a	
Head of Administration	TA	AD 12
Head of Human Resources	TA	AD 10
Head of Finance	TA	AD 10
Head of IT	TA	AD 10
Secretary	CA	FG III
Mail Clerk	n/a	
Webmaster – Editor	CA	FG IV
Data Protection Officer	TA	AD 10
Accounting Officer	TA	AD 10
Internal Auditor	n/a	
Secretary to the Director	CA	FG IV

## Regulatory compliance of guidelines and recommendations

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

The following non-compliance reflects guidelines and recommendations issued in 2017, for which the notification deadline was in 2018.

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EBA/GL/2017/09 – Guidelines on the information to be provided for the authorisation of payment institutions and e-money institutions and for the registration of account information service providers under Article 5(5) of Directive (EU) 2015/2336 – Compliance Notification Deadline – 8 January 2018

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

- a) United Kingdom (Gibraltar Financial Services Commission)

The following competent authorities submitted the following notifications:

- a) Estonia (Finantsinspektsioon) – Comply: Please note that according to the national law Payments Institutions and E-money Institutions Act § 17 (2), Finantsinspektsioon may demand the submission of additional information and documents which is not limited to the list of required data given in these guidelines. Therefore, Finantsinspektsioon complies with these guidelines preserving also the possibility to demand the submission of additional information and documents under the Payment Institutions and E-money Institutions Act §17 (2).
- b) Spain (Banco de España) – Intends to comply: By such time as the necessary legislative or regulatory proceedings implementing Directive (UE) 2015/2366 have been completed, without prejudice to Spanish national provisions implementing this regulation and within the limit of the competencies conferred to Banco de España by these national provisions.
- c) Malta (Malta Financial Services Authority) – Intends to comply: Upon publication of the Financial Institutions Act (Chapter 376 of the Laws of Malta).
- d) United Kingdom (PRA) – Not applicable: The scope of the Guidelines are outside of the scope of PRA competence, and are therefore not applicable to the UK PRA. The relevant UK authority is responding.
- e) Liechtenstein (Financial Market Authority Liechtenstein – FMA) – Intends to comply: By 01.10.2019. The PSD2 has so far not been incorporated into the EEA agreement. However, the national transposition of the PSD2 will enter into force on 1st October 2019.

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EBA/GL/2017/10 – Guidelines on major incident reporting under Directive (EU) 2015/2366 (PSD2) – Compliance Notification Deadline – 19 February 2018

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

- a) United Kingdom (Gibraltar Financial Services Commission)

The following competent authorities submitted the following notifications:

- a) Bulgaria (Bulgarian National Bank) – Intends to comply: It is envisaged by the end of the first half of 2018 the Bulgarian National Bank to adopt the relevant regulations, internal rules and procedures implementing the requirements of the Guidelines.
- b) Spain (Banco de España) – Intends to comply: By such time as the necessary legislative or regulatory proceedings implementing Directive (UE) 2015/2366 have been completed, without prejudice to Spanish national provisions implementing this regulation and within the limit of the competencies conferred to Banco de España by these national provisions.
- c) United Kingdom (PRA) – Not applicable
- d) ECB – Not applicable

- e) Liechtenstein (Financial Market Authority Liechtenstein – FMA) – Intends to comply: By 01.10.2019. The PSD2 has so far not been incorporated into the EEA agreement. However, the national transposition of the PSD2 will enter into force on 1st October 2019.
- f) Norway (Financial Supervisory Authority of Norway) – Intends to comply: By such time as the necessary legislative or regulatory proceedings have been completed, which is currently estimated to be completed in Q3 of 2018. The FSA of Norway will comply with Guidelines on major incidents reporting under PSD2 (GL), however not with the first part of GL 2.8, which says that PSPs should send the initial report to the competent authority within 4 hours from the moment the major operational or security incident was first detected. The FSA of Norway will keep existing regulation and practice on this matter. i.e. the PSPs should from the moment the PSP classifies the incident as major, send the initial report without undue delay, which with some Incidents could be less than 4 hours.

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EBA/GL/2017/11 – Guidelines on internal governance under Directive 2013/36/EU – Compliance Notification Deadline – 21 May 2018

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The following competent authorities submitted the following notifications:

- a) Belgium (National Bank of Belgium) – Does not comply and does not intend to comply: The National Bank of Belgium will generally and almost entirely comply with the EBA Guidelines on Internal Governance under Directive 2013/36/EU (EBA/GL/2017/11). However, as §§ 51 and 53 of the Guidelines differ from the requirements laid down in the Law of 25 April 2014 on the legal status and supervision of credit institutions and stockbroking firms (“Banking Law”), the aforementioned paragraphs will be taken into account as a good practice, rather than a formal requirement: Regarding the composition of the committees of the management body, article 27 of the Banking Law requires the members of those committees to be exclusively composed of members of the management body who are not executive members thereof, and with at least one member being independent within the meaning of article 526ter of the Companies Code; one member may not sit in more than three of the aforementioned committees. Furthermore, according to this article, only the majority of the members of the audit committee need to be formally independent. Hence, as far as G-SII’s and O-SII’s are concerned, the Banking Law does not require the chairs of the nomination and risk committee to be independent according to article 526ter of the Companies Code, nor does it require a majority of members to be independent for those two committees. Therefore, this approach will be put forward as a best practice, rather than a legal requirement. Finally, although it is today already formulated as a good practice in our national guidance, there is also no formal legal prohibition in the Banking Law for the chair of the risk committee to chair the management body or any other committee.
- b) Germany - Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) – Does not comply and does not intend to comply: BaFin intends to comply with the major part of the Guidelines on internal governance under Directive 2013/36/EU. There is only one exception: BaFin will not comply with the provisions on formal independence (GL para 32). This exception results from the according non-compliance confirmation regarding the Joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders under Directive 2013/36/EU and Directive 2014/65/EU.
- c) Croatia - Hrvatska narodna banka (Croatian National Bank) – Does not comply and does not intend to comply: CNB does not comply and does not intend to comply with parts of the Guidelines on internal governance (revised) (EBA/GL/2017/11) with respect to request for the G-SIIs and O-SIIs, to have majority of independent members in the nomination and risk committee. As stated in our vote on the Guidelines in question that request could significantly raise the number of members in the supervisory boards of Croatian banks, which CNB deem unnecessary.
- d) Spain (Banco de España) – Does not comply and does not intend to comply: Banco de España intends to comply with the Guidelines by 30.06.2018, except with respect to Guidelines 65, 124 and 125. Please find below further details: Guideline 65: We consider this guideline inconsistent with the Spanish national provisions implementing Directive 2013/36/EU and we are not in a position to comply with it. Law 10/2014 requires that all institutions have, at least, a remuneration committee, a nomination committee, a risk committee and an audit committee. Non-significant institutions may combine, (i) on the one hand, the remuneration committee and the nomination committee;

- and, (ii) on the other hand, the risk committee and an audit committee. However, Spanish legal framework does not allow for a combination of the risk and nomination committees. Guidelines 124 and 125: Banco de España intends to comply by such time as the necessary regulatory proceedings that have been initiated to implement article 71(1) of Directive 2013/36/EU have been completed. At this stage, Banco de España has already established procedures with the same purpose as those set out in article 71(1) of Directive 2013/36/EU which complies with substantial part of the requirements described therein and in the Guidelines.
- e) Italy (Banco d'Italia) – Intends to comply: By 31.12.2018. With regard to credit institutions, the Bank of Italy Regulation on banks' corporate governance and internal control systems is already compliant with the EBA GLs. As to investment firms, rules broadly aligned with the GLs are set in the 2007 Bank of Italy and Consob Joint Regulation implementing the Consolidated Law on Finance. Given the small size and low complexity of Italian investments firms, these rules are more principle-based (i.e. less detailed than those applicable to credit institutions) in accordance with the proportionality principle set also in the GLs. As a result of legislative innovations introduced in 2017 to implement the MIF/0 2 package these rules are currently under review, and a new Regulation will be adopted in 2018; the review will include changes to ensure full compliance with the GLs.
- f) Latvia (Financial and Capital Market Commission) – Intends to comply: By 30.06.2019. EBA Guidelines on internal governance (revised) due to their connectivity with EBA Guidelines on the assessment of the suitability of members of the management body and key function holders is expected to be implemented at the same time no later than 30.06.2019. Currently both guidelines are at the final implementation stage.
- g) Austria (Austrian Financial Market Authority) – Does not comply and does not intend to comply: In reference to our letter of 18.05.2018, in which we declared that the FMA "partially complies" with EBA Guidelines on internal governance (EBA/GL/2017/11) we would like to advise you of the following updated circumstances: FMA declared to be "partially compliant" with the guidelines as it is unable to declare its intent to comply with parts of the guideline due to restriction in national law: The concept of independent members is not inherent to the Austrian legislation applicable to corporations. It is therefore necessary to establish a legal basis to introduce the concept of independent members to the supervisory board under Austrian law. A government bill amending the Austrian Banking Act (BWG; Bankwesengesetz) has been passed to Parliament to be voted on in order to allow for a formal independence requirement. The proposed amendment explicitly excludes the requirement for the nomination committee of global and other systemic relevant institutions (majority of independent members). The FMA will therefore not be able to require those institutions to appoint a majority of independent members to their nomination committee. In addition FMA will not be able to force the chair of this committee to also qualify as an independent member. It was the FMA's original intention to implement the requirement to appoint a sufficient number of independent members to the nomination committee of all CRD-significant institutions. However, this proposal was rejected by the Austrian legislator on the grounds that restricting the appointments to the nomination committee would constitute a breach of Austrian constitutional law. Consequently, we have had to revise our compliance declaration: FMA is not compliant and does not intend to fully comply with the requirement regarding the composition of the nomination committee in all credit institutions (independent members). (paragraph 51 of the EBA Guidelines on internal Governance).
- h) Romania (National Bank of Romania) – Intends to comply: as of date of entering into force of the secondary legislation amending NBRT Regulation no 5/2013 regarding the prudential requirements for credit institutions, as amended.
- i) Slovakia (Národná banka Slovenska) – Does not comply and does not intend to comply: Národná banka Slovenska does not intend to be fully compliant with the EBA Guideline. No obstacles have been identified by Národná banka Slovenska in connection with the relevant provisions of the CRD IV. Requirements with regard to internal government as well as overall responsibility of the managing body as set forth by CRD IV (such as Article 88 and following) were implemented in suitable and satisfactory manner. On basis of the above we have concluded that the current legal framework covers all areas of the internal governance appropriately and sufficiently.
- j) Sweden (Finansinspektionen) – Comply: As at 21.05.2018, notification date. Nomination committee: In Sweden the management body does not have competence in the



process of selection and appointment of any of its members. According to the last subparagraph of article 88.2 in Directive 2013/36/EU this paragraph shall therefore not apply in Sweden. Any reference to the nomination committee in the Guidelines is therefore not applicable in Sweden. As a result thereof the parts of the Guidelines which refers to the nomination committee are not applicable in Sweden. Paragraph 23 g: As mentioned above regarding nomination committee the management body does not have competence in the process of selection and appointment of its members. Paragraph 26: Finansinspektionen interprets paragraph 26 that a member of management body in its supervisory function may be responsible for an internal control function if the conditions in paragraph 26 are met. Independent members of the management body: According to paragraph 32 of the Guidelines the management body in its supervisory function should include independent members as provided for in Section 9.3 of the joint ESMA and EBA guidelines on the assessment of the suitability of members of the management body and key function holders under Directive 2013/36/EU and Directive 2014/65/EU. According to Paragraph 88 in the joint ESMA and EBA guidelines on the assessment of the suitability of members of the management body and key function holders under Directive 2013/36/EU and Directive 2014/65/EU it should be considered as good practice to have independent members in the management body for CRD-institutions. In other words this means that the comply or explain scheme does not apply to the paragraphs in the Guidelines on internal governance regarding independent members of the management for CRD-institutions.

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EBA/GL/2017/12 – Joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders under Directive 2013/36/EU and Directive 2014/65/EU – Compliance Notification Deadline – 21 May 2018

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

- a) United Kingdom (Gibraltar Financial Services Commission)

The following competent authorities submitted the following notifications:

- a) Belgium (National Bank of Belgium) – EBA – Does not comply and does not intend to comply: The National Bank of Belgium will generally and almost entirely comply with the EBA Guidelines on suitability of members of the management body and key function holders under Directive 2013/36/EU and Directive 2014/65/EU (EBA/GL/2017/12). However, as some aspects in the Guidelines differ from the requirements laid down in the Law of 25 April 2014 on the legal status and supervision of credit institutions and stockbroking firms (“Banking Law”), the following aspects of the Guidelines will be taken into account as a good practice, rather than a formal requirement: Calculation of the number of directorships (§§ 52-55 Guidelines) According to article 62, § 9 of the Banking Law, the exercise of several directorships in undertakings that form part of the group to which the institution belongs or of another group shall be counted as one single mandate. For the application of this article, “group” shall be understood to mean a set of undertakings that are formed by one parent undertaking, its subsidiaries, the undertakings in which the parent undertaking or its subsidiaries have a direct or indirect holding within the meaning of article 3, 26° of the Banking Law, as well as undertakings forming a consortium and undertakings that are controlled by the latter undertakings or in which these latter undertakings have a holding within the meaning of article 3, 26° of the Banking Law. Therefore, according to this article, the definition of group encompasses, amongst others, both subsidiaries and qualifying holdings. Consequently, the Banking Law does not require to count (i) directorships held within entities that belong to the group and (ii) directorships held in all qualifying holdings of the same group as two (separate) directorships. “Being independent” (§§ 91-92 Guidelines) In the Banking Law, independence of directors is defined with reference to the independence criteria laid down in article 526ter of the Belgian Companies Code. Although many of these criteria concur with the criteria listed under § 91 of the Guidelines, it is not an identical match (both wider and narrower). Moreover, the criteria of article 526ter of the Belgian Companies Code are mandatory: in case one of the criteria for being independent is not met, then, automatically, the person cannot be considered as independent anymore according to the Banking Law, which is more stringent than the approach put forward in §92. Therefore, where the Banking Law requires directors to be independent, this independence will in first instance be verified according to the legal criteria put forward in article 526ter of the Belgian Companies Code, while any additional criteria put forward in the Guidelines will be applied as a good practice rather

- than a formal requirement. Assessment of the suitability of the CFO (in case not part of the management body) by the competent authority for significant CRD-institutions (§ 171 Guidelines) The Banking Law does not require the competent authority to assess the suitability of the CFO, where not part of the management body. However, it is to be highlighted that for significant CRD-institutions, based on sound prudential supervisory expectations, the CFO should in principle always be a member of the management body, in which case, the suitability will be assessed. Consequently, we expect this issue to be non-material in practice as currently we have not a significant CRD-bank where the CFO is not part of the management body.
- b) Germany (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) – EBA – Does not comply and does not intend to comply: BaFin intends to comply with the Guidelines by 31.12.2018 except for the provisions on formal independence (GL section 9.3) and the supervisory requirements regarding key function holders (GL para 170 ff.). We see no adequate legal basis for such rules in directive 2013/36/EU (CRD IV). In addition, as regards formal independence, the intended supervisory added value is not evident.
- c) Croatia (Hrvatska narodna banka – Croatian National Bank) – EBA – Does not comply and does not intend to comply: CNB does not comply and does not intend to comply with parts of the Joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body (EBA/GL/2017/12) with respect to Competent authorities assessment procedures for heads of internal control functions and the CFO as stipulated in points from 170 to 192 of the Guidelines. CNB will in accordance with the SREP Guidelines continue to assess the overall internal governance framework of the institutions and whether the independent risk control function ensures that the institution’s risk measurement, assessment and monitoring processes are appropriate. If there are doubts or detected serious deficiencies of the internal control functions and thus the appropriateness of the internal control framework and internal controls is considered inappropriate CNB will take appropriate supervisory measures.
- d) Spain (Banco de España) – EBA – Does not comply and does not intend to comply: Banco de España intends to comply with the Guidelines by 30.06.2018, except with respect to Guideline 91 (last sentence) and Guideline 186 as we consider them inconsistent with the Spanish national provisions implementing Directive 2013/36/EU. Please find below further details: Guideline 91, paragraph g (partially): the Spanish national provisions implementing Directive 2013/36/EU do not deal with the definition of independent directors. Spanish Corporate Act 10/2014 -in line with the UE “Commission Recommendation on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board of 15 February 2005”- sets forth for listed companies a cooling-off period of 1 year for professional advisers or material consultants, while the Guidelines extend it to 3 years. Guideline 186 (partially): Spanish law sets forth a 3 months term for the competent authority to issue a resolution on the suitability other individual being assessed. However, in those cases where the procedure has been suspended, Spanish law does not specifically foresee a maximum term of 6 months to render a decision.
- e) France (Autorité de Contrôle Prudentiel et de Résolution) – EBA – Does not comply and does not intend to comply: The ACPR intends to comply with the Guidelines with the exception of those paragraphs relating to the supervisory authority’s assessment of the suitability of key functions holders. Non-compliance on the supervisory authority’s assessment of the suitability of key functions Holders The declaration of non-compliance applies to paragraphs 162 and 176 (transmission to the competent authority of the results and documentation relating to the internal evaluation) and paragraphs 171 and 172 (assessment of the suitability of internal control functions managers and the Chief Financial Officer by the competent authority). In the current state of the French legal framework, the ACPR cannot comply with the above mentioned paragraphs. Actually, the suitability assessment of key functions holders is neither explicitly provided for in CRD IV nor in the French provisions and, at this stage. Current legislative provisions on the suitability requirements and assessments can be found in the French Monetary and Financial Code [see in particular articles L.511-51, L.533-25, L.612-23-1). In compliance with these provisions, the ACPR performs suitability assessments for members of the management bodies, and only carries out a formal assessment of the suitability of internal control managers when institutions are being authorized and in case of shareholding changes. The Guidelines go further than these provisions by requesting an external suitability assessment by the competent authority of Key Function Holders at each appointment or renewal. Against this background, the ACPR does not intend to comply with paragraphs 162,171, 172 and 176. Any other

additional information that may be necessary: 1) Please note that ACPR intends to comply with the paragraphs relating to the presence and the definition of independent members, but under two reserves of interpretation that it deems allowed by the text:

- formal independence of the members of the management body and the members of the Risk Committee and the Nomination Committee does not constitute a suitability criterion, which would be enforceable in the context of examination of an individual application. Pursuant to the French law, indeed the implementation of the guidelines cannot lead to the refusal on this sole ground of an individual application under the “fit and proper” assessment. In addition, except for the specific case of audit committees of public-interest entities, for which Article L. 823-19 of the Commercial Code provides, in principle, for the presence of an independent member, under the transposition of Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, the presence of independent members in management bodies and other committees is considered by ACPR a good practice to be encouraged but is not as legal or regulatory requirement.
- In law, failure to comply with one or more of the criteria listed in the guidelines (paragraph 91) does not constitute a presumption of non-independence. Noncompliance with these criteria does not exhaust the notion of independence and the analysis of this quality must also take into account other measures, in particular those that would be developed by French institutions in the context of laws and regulations in force and which could achieve the same objective of independence.

2) Please note that the Autorité de contrôle prudentiel et de résolution (ACPR) published on 05 June 2018 on its official register a notice declaring its partial compliance with the Joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body (EBA/GL/2017/12) by 30 June 2018.

- f) Italy (Banco d'Italia) – EBA – Intends to comply: According to Italian Law, suitability requirements for members of the management body and key function holders of banks and investment firms must be set in two decrees of the Ministry of Economy and Finance. The Bank of Italy is called to provide an opinion, jointly with the Consob for requirements that apply to investment firms management body and KFH. The decree regarding suitability requirements for banks board members and KFHs was already published for consultation some months ago, and we expect it will soon be enacted. For suitability requirements applicable to investment firms more time might be needed. The Bank of Italy deems important that the forthcoming national rules on suitability requirements be compliant with the EBA - ESMA Guidelines (as well as other relevant standards); in releasing its opinions to the Ministry, the Bank of Italy strives to achieve this goal. Few marginal pieces of the EBA - ESMA Guidelines are under the direct remit of the Bank of Italy and are already largely compliant with the Guidelines; the Bank of Italy will be able to assess the need for their fine-tuning only once the new decrees will be enacted and their practical impact considered.
- g) Latvia (Financial and Capital Market Commission – FCMC) – EBA – Does not comply and does not intend to comply: The Financial and Capital Market Commission, which is the competent authority in Latvia for supervision of institutions subject to these guidelines, already complies with parts of these guidelines (aspects that relate to the already implemented provisions of the directive 2013/36/EU and EBA guidelines on the assessment of the suitability of members of the management body and key function holders [22 November 2012] – the identification of key function holders, time commitment requirements, counting of directorships, diversity matters, collective suitability, independence of mind, nomination committee requirements, etc.). The partial compliance will result for the requirements of independent members of a management body in its supervisory function (hereinafter – the Board) (the principle of being independent). Given Latvia's small banking sector both in asset size and number of market participants, and also limited options to recruit suitable candidates as independent members, it would not be proportionate to require small banks with a few Board members to artificially increase those Boards. The strengthening of the management of the conflicts of interest should be fostered for those banks. The competent authority intends to comply partially with the Guidelines by 30.09.2018.
- h) Lithuania (Bank of Lithuania) – EBA – Does not comply and does not intend to comply: Bank of Lithuania will comply with the Guidelines on the assessment of the suitability of members of the management body and key function holders except for the provisions relating to suitability assessment of key function holders (except for internal auditor) to be carried out by competent authority (Title VIII, sections 23-24) due to the following reasons: 1) Key function holders are not considered to be the managers

- of a credit institution according to CRD IV; 2) the Bank of Lithuania would prefer to leave the assessment of key function holders within the competence of a supervised entity as credit institutions, with the managers approved by competent authority, are considered to be competent enough to carry out the assessment of key function holders themselves; 3) the assessment of key function holders, carried out by competent authority, would increase administrative burden to both supervised entity and competent authority. According to Lithuanian legislation, key function holders (except for internal auditor) do not need the permission of supervisory authority to hold the positions of key function holders.
- i) Netherlands (De Nederlandsche Bank) – EBA – Intends to comply: Regarding the concept of formal independence, the Dutch Corporate Governance Code is not fully in line with the Guidelines on the assessment of the suitability of members of the management body. DNB is currently examining how to address these differences and what the cross sectoral consequences would be. In anticipation of these regulatory proceedings, DNB intends to comply with the Guidelines on the assessment of the suitability of members of the management body.
- j) Austria (Austrian Financial Market Authority – FMA) – EBA – Intends to comply: By 01.07.2019. The concept of independent members is not inherent to the Austrian legislation applicable to corporations. Therefore a legal basis is needed that introduces the concept of independent members to the supervisory board under Austrian law. A government bill has been passed to parliament to vote on (amending the Austrian Banking Act (BWG; Bankwesengesetz)) in order to allow for a formal independence requirement. While the aforementioned amendment will enter into force on 1 January 2019, it will contain a transitional period until 1 July 2019 for implementation. Institutions will have to take into consideration the new independence criteria if any member of the supervisory board is changed on/after 1 January 2019. However all institutions' supervisory boards will have to show a sufficient number of independent members at latest by 1 July 2019. Hence the FMA does intend to comply with the guidelines with effect from 1 July 2019.
- k) Poland (Komisja Nadzoru Finansowego – KNF) – EBA – Intends to comply: The full compliance will only be possible, after the amendment of Polish regulatory framework (specifically - the Banking Act), in the area of the personal data protection issues. The legislative proceedings in the above-mentioned scope, have already been initiated. However, the date, by which those proceedings will be completed, is yet unknown. Guidelines will be implemented also under Regulation of the Minister of Finance regarding technical and operational requirements of investment firms, banks referred to in Article 70(2) of the Act on Trading in Financial Instruments, and custodian banks. Currently this Regulation is being discussed between the Ministry of Finance, market participants and KNF. Please see below a link where you can find details of legislative proceedings: <https://legislacja.rcl.gov.pl/projekt/12308800> We assume that the Guidelines will be implemented by the end of June 2018.
- l) Portugal (Banco de Portugal) – EBA – Intends to comply: Banco de Portugal is compliant with most of the provisions of EBA/GL/2017 /12 (“the Guidelines”), which are reflected in the legislation and regulation currently in force in Portugal, notably in the Legal Framework of Credit Institutions and Investment Firms and in the regulation “Instrução do Banco de Portugal n.º 12/2015”. Furthermore, Banco de Portugal addressed a Circular Letter (CC/2018/00000018, dated 22 February 2018) to the credit institutions and investment firms included in the scope of application of the Guidelines informing about its publication and encouraging the addressees to adopt the necessary measures to comply with the guidelines as of 1 July 2018. In this Circular Letter, Banco de Portugal highlighted that institutions should comply with the Guidelines that are to be applied in the context of the legislation and regulations in full force and effect, specifically as a complement to the Legal Framework of Credit Institutions and Investment Firms as regards this subject matter. The Carta Circular is available at the following link: [https://www.bportugal.pt/sites/default/files/anexos/cartas-circulares/295915471\\_5.docx.pdf](https://www.bportugal.pt/sites/default/files/anexos/cartas-circulares/295915471_5.docx.pdf) Nevertheless, there are three specific aspects mentioned in the Guidelines with which Banco de Portugal cannot ensure compliance by the application date of the Guidelines, but intends to comply with by such time as the necessary legislative or regulatory proceedings have been completed. These aspects are as follows: 1) Competent authority's suitability assessment of key function holders (mentioned in section 23. of Title VII of the Guidelines) The existing national legal framework establishes that institutions must assess the suitability of their key function holders. However, under that legal framework, Banco de Portugal will only assess the

suitability of key function holders if it considers that a particular circumstance was not properly assessed by the institution or based on new facts that come to Banco de Portugal's attention. In order for Banco de Portugal to assess the suitability of key function holders of significant CRD institutions as provided in the Guidelines a specific binding regulation will have to be enacted. This will probably not take place by the application date of the Guidelines, but it is expected to occur until the end of 2018. 2) Calculation of the number of directorships (mentioned paragraphs 52 and 53 of section 5. of Title III of the Guidelines) Whereas paragraph 52 of the Guidelines establishes that all directorships held within the same group count as a single directorship, the Portuguese legal framework provides that directorships held in entities included in the same consolidated supervision perimeter will be count as a single directorship. Hence, in this particular aspect Banco de Portugal cannot ensure compliance with the Guidelines, but only because it follows a more restrictive criterion when it comes to the counting of directorships in a group context. In fact, the rules for calculating the number of directorships set forth in the Portuguese legal framework are more narrow and rigorous for institutions than the one that results from the application of paragraph 52 of the Guidelines, which is also the criterion used in most Member States. Furthermore, when it comes to the counting of directorships held in undertakings in which the institution has qualifying holdings, which are counted as a single directorships, paragraph 53 of the Guidelines provides that this single directorship in qualifying holdings counts as a separate single directorship, i.e., the directorship held within the same institution and the single directorship in its qualifying holdings together count as two directorships. Banco de Portugal in its supervisory practice does not follow this rule, which means that those directorships together count as one directorship only. This is due to the fact that under Portuguese law institutions are subject to a stricter criterion for calculation of the number of directorships within a group context (as mentioned above) and therefore this rule in paragraph 53 of the Guidelines should not be applied for the time being in order to level the assessment with the remaining Member States. Nevertheless, Banco de Portugal is working on a proposal to amend the Legal Framework of Credit Institutions and Investment Firms, which will entail a broad revision of the existing provisions, including the issues mentioned above in order to ensure full compliance with the provisions of the Guidelines. This proposal will be presented to the Portuguese Government, which is the competent entity to enact the corresponding legal instrument. 3) Possibility of performing the individual and collective suitability assessment after the person's appointment in exceptional cases (mentioned paragraphs 135 and 139 of section 17. of Title VII of the Guidelines). The possibility of institutions appointing members of the management body without a prior suitability assessment, based on exceptional circumstances established in paragraph 135 of the Guidelines, is not currently foreseen under Portuguese law. Nevertheless, the aforementioned proposal to amend the Legal Framework of Credit Institutions and Investment Firms in which Banco de Portugal is working on foresees this particular issue in order to ensure full compliance with the provisions of the Guidelines. As mentioned above, this proposal will be presented to the Portuguese Government, which is the competent entity to enact the corresponding legal instrument.

- m) Romania (National Bank of Romania) – EBA – Intends to comply: As of the date of entering into force of the secondary legislation amending NBRT Regulation no. 5/2013 regarding the prudential requirements for credit institutions, as amended.
- n) Slovenia (Bank Slovenije) – EBA – Does not comply and does not intend to comply: In carrying the tasks and powers of supervision in accordance with Banking Act and Regulation (EU) No. 575/2013, the Bank of Slovenia does not, and does not intend to comply with the Guidelines within the scope of those provisions of Title VIII of the Guidelines that relate to the supervisory assessment of the suitability of Heads of Internal control functions and of the Chief Financial Officer when these persons are not members of the governing body. Bank of Slovenia intends to comply with the rest of the Guidelines by 30 June 2018. In our view the supervisory assessment of KFH - applicable to the suitability assessment of members of the management body of Institutions, as well as the heads of Internal control functions and the CFO, where they are not part of the management body, in the case of significant CRD-institutions, para 170) - is not reasonable nor proportionate in the conditions of relatively small banks (which is the case in Slovenia compared to EU systemically important Institutions). Namely, this could result in an inappropriate interference to internal governance arrangements of particular Institution. We believe that the supervisor should particularly monitor the effectiveness of the institution's internal governance arrangements and how the individual KFH

contributes to these processes, but not also to assess the professional qualifications of these persons. The choice of these persons should be, in particular, the result of professional decision of the bank in accordance with its needs (size of the bank, riskiness of their portfolios, types of products, internal organization issues, nature, scope and complexity of its activities, risk management systems). Furthermore these persons carry out their activities within the expert (and not management) functions of the bank. In our opinion the supervisor could find it difficult to adequately assess the professional qualifications of the KFH in relation to the actual needs of the bank, especially for persons who are (yet) not known in the wider banking environment. This could be the case in the smaller banking systems (as in Slovenia). Furthermore, a multiple consecutive negative supervisory assessment of the suitability of the candidates for KFH functions may result in vacant managerial positions of functions in question for a longer period (months, even years), considering the length of supervisory suitability assessment procedures and the length of selection processes in banks. Any other additional information that may be necessary: Slovenian Banking Law does not provide a legal basis for the supervisory assessment of the suitability of the KFH. The Banking Law should therefore first be amended to allow the full compliance with the guidelines.

- o) Sweden (Finansinspektionen – The Swedish Financial Supervisory Authority, FI) – EBA – Does not comply and does not intend to comply: Sweden does not comply and does not intend to comply with certain parts of the Guidelines. Non-compliance is for the most part due to Swedish law or binding regulation, which makes it impossible for the Swedish FSA to comply with the Guidelines. The specific reason for non-compliance is set forth below: Paragraph 171 Swedish law does not provide for suitability assessments of key function holders. Consequently, those parts of the Guidelines which concern the competent authorities obligations in relation to the suitability assessment of key function holders will not be implemented in Sweden. For the same reason, will paragraph 164 nor be implemented in Sweden. Any other additional information that may be necessary: Paragraph 174 For the avoidance of doubt, the Swedish regulation allows suitability assessment before and after the appointment. Therefore, it should be noted that institutions under the supervision of the Swedish FSA are allowed to notify the Swedish FSA either before or after the appointment. Section 9.3 (paragraphs 88-93) Pursuant to paragraph 88 it should be considered good practice to have independent members in the management body for CRD-institutions. In other words this means that the comply or explain scheme does not apply to this section for CRD-institutions. Section 15 (paragraphs 124-128) For the avoidance of doubt, according to Swedish law the management body does not have competence in the process of selection and appointment of any of its members. As stated in paragraph 128 the section on nomination committee and its task is thus not applicable in Sweden. Annex III paragraph 4.1 According to this paragraph criminal records are required to be submitted to the Swedish FSA for each suitability assessment. However, as part of the suitability assessment the Swedish FSA request criminal records directly from the Police Authority. Therefore, there is no need to submit a criminal record to the Swedish FSA as part of the application of each suitability assessment.

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EBA/GL/2017/13 – Guidelines procedures for complaints of alleged infringements of Directive (EU) 2015/2366 – Compliance Notification Deadline – 5 February 2018

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

- a) United Kingdom (Gibraltar Financial Services Commission)

The following competent authorities submitted the following notifications:

- a) Bulgaria (Bulgarian National Bank) – Intends to comply: By the end of the first half of 2018. It is envisaged by the end of the first half of 2018 the Bulgarian National Bank to adopt the relevant internal rules and procedures implementing the requirements of Guidelines.
- b) Spain (Banco de España) – Intends to comply: By such time as as the necessary legislative or regulatory proceedings implementing Directive (UE) 2015/2366 have been completed, without prejudice to Spanish national provisions implementing this regulation and within the limit of the competencies conferred to Banco de España by these national provisions.
- c) United Kingdom (PRA) – Not applicable: The scope of the Guidelines are outside of the

scope of PRA competence, and are therefore not applicable to the UK PRA. The relevant UK authority is responding.

- d) ECB – Not applicable.
- e) Liechtenstein (Financial Market Authority Liechtenstein – FMA) – Intends to comply: By 01.10.2019. The PSD2 has so far not been incorporated into the EEA agreement. However, the national transposition of the PSD2 will enter into force on 1st October 2019.

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EBA/GL/2017/14 – Guidelines on supervision of significant branches – Compliance Notification Deadline – 16 April 2018

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

- a) aFrance (Prudential Supervision and Resolution Authority – ACPR)

The following competent authorities submitted the following notifications:

- a) Croatia (Hrvatska narodna banka – Croatian National Bank) – Intends to comply: By the date a relevant institution exist in my jurisdiction. The Guidelines on supervision of significant branches address identification and supervision of significant (and significant-plus) branches. Currently, there is only one branch in Croatia that is considered neither significant nor significant-plus so there are no institutions within the scope of the Guidelines. However, if such an institution appears on the market, we will be ready to apply the guidelines (we have included the Guidelines on supervision of significant branches in the local supervisory procedures (SREP Methodology of the Croatian National Bank).
- b) Latvia (Financial and Capital Market Commission) – Intends to comply: By 31.03.2019. According to financial information available as of 31.12.2018, there are no indications that branches established in the host Member State (Latvia) can be considered as significant according to Article 51 of Directive 2013/36/EU. So far no requests were received from the competent authority of a host Member State to home Member State (Latvia) to consider particular branches as significant. To ensure the implementation of the requirements set out in the EBA Guidelines on Supervision of Significant Branches amendments of the FCMC internal supervisory procedures regarding operation of colleges of supervisors, on information exchange between home and host competent authorities for supervision of significant-plus branches are being elaborated and will be finalized until 31.03.2019. Until 31.03.2019 no changes in the classification of branches are expected.

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EBA/GL/2017/15 – Guidelines on connected clients under Article 4(1)(39) of Regulation (EU) No 575/2013 – Compliance Notification Deadline – 23 April 2018

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The following competent authorities submitted the following notifications:

- a) Latvia (Financial and Capital Market Commission) – Intends to comply: By 01.09.2019. EBA Guidelines are in the process of being implemented in amendments to the FCMC Regulation on Management of Credit Risk, where the FCMC also intends to implement EBA Guidelines on Definition of Default, EBA Guidelines on Management of Non-Performing and Forborne Exposures, EBA Guidelines on Credit Institutions' Credit Risk Management Practices and Accounting for Expected Credit Losses and set materiality threshold according to RTS No 2018/171.

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EBA/GL/2017/16 – Guidelines on PD, LGD estimation and treatment defaulted exposures – Compliance Notification Deadline – 25 June 2018

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

- a) Liechtenstein (Financial Market Authority Liechtenstein – FMA)

The following competent authorities submitted the following notifications:

- a) Italy [Banca d'Italia] – Intends to comply: By 01.01.2021. The Bank of Italy informs the EBA that it intends to comply with the Guidelines by 1 January 2021, making a reservation to partially comply with paragraphs 135 (treatment of the artificial cash flow) and 153 (treatment of incomplete recovery processes) of the Guidelines for the reasons outlined below.\*\*\*
- b) Cyprus [Central Bank of Cyprus] – Not applicable. The Guidelines do not apply in my jurisdiction since no institution in Cyprus apply the IRB approach.
- c) Latvia [Financial and Capital Market Commission] – Not applicable. The Guidelines do not apply in my jurisdiction. In Latvia, LSI banks use the standardised approach to calculate capital requirements for credit risk; therefore there are no market participants to whom these guidelines are applicable at the moment. Taking into account proportionality and workload required for implementing the guidelines - we are planning to take necessary steps to ensure compliance with the guidelines as soon as the bank notifies us about its intention to use the IRB approach. The guidelines will be followed as an example of best practice in a daily supervision process.
- d) Romania [National Bank of Romania] – Intends to comply: As of the date of entering into force of the secondary legislation amending NBR Regulation no. 5/2013 regarding the prudential requirements for credit institutions, as amended.

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EBA/GL/2017/17 – Guidelines the security measures for operational and security risks of payment services under Directive (EU) 2015/2366 (PSD2) – Compliance Notification Deadline – 12 March 2018

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

- a) Liechtenstein (Financial Market Authority Liechtenstein – FMA)

The following competent authorities submitted the following notifications:

- a) Denmark [Danish Financial Supervisory Authority] – Intends to comply: By 01.07.2020. The Danish FSA intends to implement the guidelines into national law. However, the Danish FSA awaits the guidelines on JCT and security risk management as well as the forthcoming guidelines on outsourcing before doing so, as the national regulation will have to accommodate
- b) Germany [Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin] – Intends to comply: By 31.12.2019. BaFin intends to integrate the content of the Guidelines into the existing national rulebook for IT-supervision to avoid duplications of and possible contradictions with existing regulatory requirements.
- c) Spain [Banco de España] – Intends to comply: By such time as the necessary legislative or regulatory proceedings implementing have been completed, without prejudice to Spanish national provisions implementing this regulation and within the limit of the competencies conferred to Banco de España by these national provisions.
- d) Hungary [Central Bank of Hungary] – Comply: As at 13.03.2018, notification date. On 13th January 2018 MNB activated a notification portal so called ERA through which the PSPs can fulfil the reporting obligation relating to the operational and security risks assessment and mitigation measures implemented by them in accordance with Article 95(2) of Directive (EU) 2015/2366 (PSD2). PSPs were informed and are aware of the fact that the establishment of the framework with appropriate mitigation measures and control mechanisms to manage the operational and security risks relating to the payment services they provide has to be done in accordance with the EBA Guidelines (EBA/GL/2017/17) published on the EBA website. Furthermore on the basis of the EBA Guideline Hungary will enhance the compulsory nature of the establishment of such a framework by issuing MNB Guidelines addressed to PSPs by 30.05.2018.
- e) Malta [Malta Financial Services Authority] – Comply: As at 12.03.2018, notification date. Please note that these Guidelines are the joint responsibility of both the MFSA and CBM and both have agreed to comply with these Guidelines.
- f) Malta [Central Bank of Malta] – Comply: As at 12.03.2018, notification date. Please note that these Guidelines are the joint responsibility of both the MFSA and CBM and both have agreed to comply with these Guidelines.



- g) Portugal (Banco de Portugal) – Intends to comply: By 31.03.2019. Banco de Portugal Intends to comply with the Guidelines on security measures for operational and security risks by such time as the necessary legislative or regulatory proceedings have been completed, which is expected to be 31.03.2019.
- h) United Kingdom (PRA) – Not applicable: The scope of the Guidelines are outside of the scope of PRA competence, and are therefore not applicable to the UK PRA. The relevant UK authority is responding

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EBA/GL/2018/01 – Guidelines on uniform disclosure under Article 473a of Regulation (EU) No 575/2013 as regards the transitional period for mitigation the impact of the introduction of IFRS 9 on own funds – Compliance Notification Deadline – 16 March 2018

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

- a) United Kingdom (Gibraltar Financial Services Commission)

The following competent authorities submitted the following notifications:

- a) Germany (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) – Intends to comply: Guidelines but currently not a single German entity uses these transitional arrangements. In case necessary Germany would set such regulation into force as soon as possible.
- b) Croatia (Hrvatska narodna banka – Croatian National Bank) – Comply: On 23 January 2018 Croatian National Bank (CNB) sent a circular letter to all Croatian credit institutions to inform them about EBA's Guidelines on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds. The CNB expressed its expectation from all credit institutions to fully comply with applicable provisions of the Guidelines. If a credit institution should not comply with the applicable provisions of the Guidelines, the CNB shall consider imposing supervisory measures.

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EBA/GL/2018/05 – Guidelines on fraud reporting under the Payment Services Directive 2 (PSD2) – Compliance Notification Deadline – 19 November 2018

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The following competent authorities submitted the following notifications:

- a) Czech Republic (Czech National Bank) – Intends to comply: By 01.01.2021. Proceedings to adapt and make the necessary changes to the underlying reporting systems, and in particular the implementation of a new data collection system of the Czech National Bank, have been initiated to comply with the Guidelines.
- b) France (Banque de France) – Intends to comply: By 2021. Proceedings to adapt and make the necessary changes to the underlying reporting systems have been initiated to comply with the Guidelines that are not covered under the existing national statistical framework, namely for guidelines 1.4, 1.5, 2.1, 3.1, 7 (except 7.2).
- c) Lithuania (Bank of Lithuania) – Intends to comply: By 31.12.2020. Proceedings to adapt and make the necessary changes to the underlying reporting systems have been initiated to comply with the Guidelines. While this is ongoing, Bank of Lithuania will include the number and value of total and fraudulent payments with a breakdown for each payment service (credit transfers, direct debits and etc.). The methodology used by the Bank of Lithuania will comply with the Guidelines and data collected will be comparable with the high-level data collected under the Guidelines.
- d) Netherlands (De Nederlandsche Bank N.V. (DNB)) – Intends to comply: By 01.07.2019. By such time as the necessary legislative or regulatory proceedings have been completed. In addition, proceedings to adapt and make the necessary changes to the underlying reporting systems have been initiated to comply with the Guidelines.
- e) Austria (Austrian Financial Market Authority) – Does not comply and does not intend to comply: On the Basis of the revised ECB statistics regulation, Regulation (EU) No 1409/2013, full compliance with the EBA GL will be established. First data transmission are expected by mid-2021. We deem a standardised data collection (using reporting IT taxonomy) the most efficient way to collect high quality data. As it would not be expedient to implement a national reporting system for four reporting reference dates, we decided to await the ECB regulation. This also will provide the maximum degree

of legal certainty for payment service providers. In the period from 2020 to 2021, we will focus on a consistent and efficient implementation of all requirements set forth in EBA/GL/2018/05 (i.e. PSPs will be required to collect fraud data for the year 2020) and prepare the technical transposition of the ECB Payment Statistics Regulation in our national reporting system so that PSPs will be in a position to report fraud data starting from Q2 2021.

- f) Poland (Komisja Nadzoru Finansowego) - Does not comply and does not intend to comply: Komisja Nadzoru Finansowego (the KNF) hereby kindly informs you of its intention to partially comply with the Guidelines on fraud reporting under PSD2 (EBA/GL/2018/05). Article 96(6) requesting member states to “ensure that payment service providers provide, at least on an annual basis, statistical data on fraud” has been translated into the Polish Act on Payment Services as a yearly requirement. Pursuant to the Polish Act on Payment Services, both the receipt of the data from the payment service providers and its subsequent reporting to the EBA and the ECB will be proceeded by the Komisja Nadzoru Finansowego (KNF) once a year and not every six months, as required by the Guidelines.
- g) United Kingdom (Financial Conduct Authority – FCA) – Intends to comply: from 01.07.2019. Proceedings to adapt and make the necessary changes to the underlying reporting systems have been initiated to comply with the Guidelines. We advised PSPs that they will be able to provide the data specified in the report on a ‘best efforts’ basis in relation to the reporting period 1 January 2019 - 30 June 2019.

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EBA/REC/2017/02 Recommendation on the coverage of entities in a group recovery plan - Compliance Notification Deadline – 26 March 2018

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

- a) France (ACPR)
- b) Cyprus (Central Bank of Cyprus)
- c) Finland (Finanssivalvonta)
- d) United Kingdom (Financial Services Commission – Gibraltar)

The following competent authorities submitted the following notifications:

- a) Germany - Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) – Comply: as at 26.03.2018. With respect to the institutions that will be required to submit recovery plans in the future, we intend to comply with the EBA Recommendations on the coverage of entities in a group recovery plan (EBA/REC/2017/02).
- b) Estonia (Finantsinspektsioon) – Comply: as at 05.03.2018. According to Estonian Financial Crisis Prevention and Resolution Act section 10 subsection 3 if a credit Institution established in Estonia is a subsidiary of the consolidation group and the parent undertaking of the consolidation group has been established in the other EEA country, a separate recovery plan for a subsidiary need not be prepared, unless: 1) the credit Institution is subject to direct supervision by the European Central Bank pursuant to Article 6(4) of Council Regulation (EU) No 1024/2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit Institutions (OJ L 287, 29.10.2013, p. 63-89); 2) the value of assets of the credit Institution exceeds 30 billion euros; 3) the ratio of assets of the credit Institution over the gross domestic product of Estonia exceeds 20 per cent, unless the value of the assets is below 5 billion euros. Subsection 4 of the same act stipulates that if a parent undertaking has been established in the other EEA country, the Financial Supervision Authority may require a subsidiary that is a credit Institution established in Estonia and that is part of a consolidation group to prepare a recovery plan. That means the EBA recommendation’s “Recommendations on the coverage of entities in the group recovery plan” points 12 and 58 may not be completely in line with national legislation.
- c) Latvia (Financial and Capital Market Commission) – Intends to comply: Implementation of the EBA Recommendation on the coverage of entities in a group recovery plan (EBA/REC/2017/02) will be accomplished, within the update of the FCMC’s Regulation No. 219 Regulations on the Contents of Information to be Included in the Recovery Plan and Reporting Procedure which currently is pending finalization and approval subject to the publication and the entering into force of the Commission Delegated Regulation (EU)

No .../. of 25.10.2018 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the criteria for assessing the impact of an institution's failure on financial markets, on other institutions and on funding conditions. The requirements of the EBA Recommendation EBA/REC/2017/02 already have been communicated by the FCMC to the supervised institutions within the assessment process of recovery plans submitted during 2018.

- d) Poland (Komisja Nadzoru Finansowego) - Does not comply and does not intend to comply: My competent authority does not, and does not intend to, comply with the Guidelines and recommendations for the following reasons: 1. The coverage of entities in group recovery plans envisaged by the Recommendation is not extensive enough and does not take into account specificities of different markets. Firstly one could not agree that subsidiaries and branches should be treated in group recovery plans in the same way. This is because in case of branches the responsibility for protection of depositors' means stays with the country which is home for the dominant (parent) entity, while in case of subsidiaries the whole responsibility is transferred to the local deposit guarantee scheme in the jurisdiction where a subsidiary performs its activity. We believe, that when it comes to subsidiaries which are of systemic importance for the local market, individual recovery plans should be in place. This is especially important for non-SSM countries which have no access to ECB's support, and where whole responsibility remains at the local level. Having in mind that in Poland the funding for banks comes mainly from deposits, in case of an adverse scenario, the burden for the DGS would be tremendous, and the scheme could hardly accommodate the costs resulting from such an adverse scenario. Eventually the whole real economy, as well as taxpayers would be affected. This is why the KNF, being responsible for stability of financial market in Poland, is of the opinion that both management of a parent and subsidiary to be assessed as fit and proper should ensure group and individual recovery plans consistent with, and complementary to each other to be in place. A group recovery plan should describe all actions which parent foresees to undertake towards subsidiary in case of problems at group level, whereas an individual recovery plan should fulfil all conditions stemming from the Article 5 of BRRD. Having in mind what has been said above, the KNF believes that the draft EBA Recommendation does not give enough consideration to the necessity of protecting stability of host countries' financial markets. 2. Institutions that are not considered relevant either for the group, or for the local economy are not afforded appropriate coverage in the Recommendation. When it comes to not relevant subsidiaries we are convinced that minimal set of information should be ensured in group recovery plan. The foregoing should include at least: 1. identification of core business lines and critical functions performed by a given subsidiary, in particular, those in relation to the local market, as well as essential from the group's point of view (e.g. customer service, the performance of settlements, collecting deposits-including identification of deposits guaranteed by the local deposit guarantee scheme); 2. list of services provided by the group to a local subsidiary (outsourcing). Description of procedures and measures that enable continuation of performance of operations provided by the group in favour of the local entity in the event of stress situation of service providers; 3. a group recovery plan should include recovery indicators defined at the level of the local subsidiary at least in the areas of capital and liquidity adequacy, efficiency / profitability and asset quality; 4. recovery options available in the event of stress situation of the local subsidiary, aimed at defining mitigation actions taken by the group vis-a-vis the subsidiary. Recovery options that could be utilized should indicate the amount of funds that are available to be engaged and maximum timeframe to implement the recovery options in the course of both the normal business of the entity, and in stressed conditions, as well as impact of recovery options on key indicators in the area of capital adequacy, liquidity and profitability; 5. internal communication plan, that should be circulated to the subsidiaries (it also refers to the principles for communication in a stress situation of the parent undertaking) as well as external communication, including exchange of information with competent supervisory authorities. 3. The Recommendation introduces a prohibition on reaching a joint decision by supervisory authorities on requesting individual recovery plans to address insufficient coverage of entities in group recovery plans. The Recommendation (section 58) provides that: Without prejudice to paragraph 12, the consolidating supervisor and the competent authorities involved in the joint decision process referred to in Article 8 of the BRRD should not request the submission of individual plans for the sole purpose of addressing insufficient coverage of entities in the group recovery plan as referred to in the previous paragraphs. Such prohibition is far-reaching, and is not substantiated by the BRRD. It would be hardly feasible to provide any justification for such prohibition

from the prudential supervision's point of view. Supervisory authorities should be equipped with enough flexibility in assessment of group recovery plans enabling them to include insufficient coverage of a given entity as a basis for requiring an individual recovery plan. Such flexibility is afforded by the BRRD, and then unduly contradicted by the provisions of the Recommendation.

- e) Liechtenstein - Financial Market Authority Liechtenstein (FMA) – Intends to comply: The Recommendations refer to Directive 2014/59/EU (BRRD). The national BRRD legislation is already in force in the Principality of Liechtenstein. The BRRD has not yet been incorporated into the EEA Agreement.
- f) Norway (Finanstilsynet) – Intends to comply: when the BRRD enters into force in Norway according to the revision of the Act of financial Institutions and financial groups 2015 as approved by the Norwegian Parliament. The BRRD Directive will be included in the EEA agreement. Finanstilsynet will publish EBAs recommendation on the coverage of entities in the group recovery plan on our home page.

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EBA/REC/2017/03 Recommendation on outsourcing to cloud service providers - Compliance Notification Deadline – 28 May 2018

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

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

The following competent authorities submitted the following notifications:

- a) Denmark (Danish Financial Supervisory Authority) – Intends to comply: By such time as the necessary legislative or regulatory proceedings have been completed. Regulatory proceedings have been initiated. A revised execution order on outsourcing, originally planned have to come into effect by 1st January 2019, has been delayed.
- b) Germany (BaFin) – Intends to comply: Intends to comply with the Recommendations by respective implementation period that will be fixed for the Outsourcing guidelines
- c) Italy (Bank of Italy) – Intends to comply: With regard to credit institutions, the Bank of Italy Regulation on banks' outsourcing of IT system, including outsourcing to cloud service providers, is already compliant with the EBA Recommendations. As to investment firms, general rules on outsourcing are set forth by the 2007 Bank of Italy and Consob Joint Regulation implementing the Consolidated Law on Finance. As a result of legislative innovations introduced in 2017 to implement the MIFID 2 package these rules are currently under review and a new Regulation will be adopted in 2018; within this framework compliance with the Recommendations will be ensured.

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EBA/REC/2018/01 Recommendation on (amendments EBA/REC/2015/01 and EBA/REC/2017/01 on equivalence of confidentiality regimes - Compliance Notification Deadline – 8 October 2018

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

- a) Bulgaria (Българска народна банка – Bulgarian National Bank)
- b) Cyprus (Central Bank of Cyprus)

The following competent authorities submitted the following notifications:

- a) Belgium (National Bank of Belgium) – Comply: As at 25.09.2018, notification date. The NBB complies with the recommendations. No specific document to implement these Recommendations has been published but the NBB will use them in its international cooperation involving the countries included in the Recommendations.
- b) Croatia (Hrvatska Narodna Banka – Croatian National Bank) – Comply: As at 08.08.2018, notification date. The Croatian National Bank complies with the Recommendation by means of its supervisory practices – the updated list of equivalent third-country supervisory authorities covered by the initial Recommendation and its all following iterations (i.e. additional Recommendations) is the basis for the acceptance of their participation in the work of colleges of supervisors.
- c) Italy (Bank of Italy) – Comply: The Italian institutional framework does not require specific legislative and/or regulatory provisions for the application of the

Recommendations on the equivalence of third-country confidentiality regimes. The supervisory approaches and practices put in place by the Bank of Italy for cooperation and information exchange with third countries are in line with the EBA Recommendations.

- d) Slovenia (Banka Slovenije – Bank of Slovenia) – Comply: According to the Article 13, paragraph 3 of the Banking Act, the Bank of Slovenia makes decisions regarding the application of guidelines and recommendations issued by the European Banking Authority. Decisions regarding the application of such guidelines or recommendations are published in the Official Gazette of the Republic of Slovenia. Bank of Slovenia complies with the Recommendations at hand and a separate Bank of Slovenia Decision amending decision on the use of Recommendations EBA/REC/2015/01 on the equivalence of confidentiality regimes (EBA/REC/2018/01) was issued for this purpose.

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JC/GL/2017/16 (JC 2017 16) Joint Guidelines under Article 25 of Regulation (EU) 2015/847 on the measures payment service providers should take to detect missing or incomplete information on the payer or the payee, and the procedures they should put in place to manage a transfer of funds lacking the required information - Compliance Notification Deadline – 16 March 2018

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The following competent authorities submitted the following notifications:

- a) Ireland (Central Bank of Ireland) – EBA – Comply: The Central Bank of Ireland has implemented the guidelines contained in the Guidelines on the Fund Transfer Regulations (“Guidelines”) into its supervisory processes. The Central Bank has the appropriate powers to comply with the Guidelines within existing domestic legislation, as provided for in the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010, as amended, the Central Bank Acts, and the European Union (Information Accompanying Transfers of Funds) Regulations 2017. On November 2nd 2017, the Central Bank of Ireland issued an Anti-Money Laundering bulletin. The main purpose of the bulletin was to provide guidance in relation to suspicious transaction reporting. However, this edition of the bulletin gave an opportunity to provide an update on some of the latest developments. Included in this was an overview of the fund transfer regulations and the associated guidelines. The bulletin was published on the Central Bank of Ireland website, please see below link: <https://www.centralbank.ie/docs/default-source/Regulation/how-we-regulate/anti-money-laundering-and-counteracting-the-financing-of-terrorism/legislation/anti-money-laundering-bulletin-on-suspicious-transaction-reporting---november-2017.pdf?sfvrsn=3> The Central Bank of Ireland has also published the Guidelines and related Statutory Instrument on its website, at the below link: <https://www.centralbank.ie/regulation/anti-money-laundering-and-counteracting-the-financing-of-terrorism/guidance-on-risk> The Central Bank of Ireland has spoken at a number of outreach events with industry where it highlighted the publication of the Fund Transfer Regulations, the associated Guidelines and the requirement to comply with these guidelines. As an example, please find attached presentation to Financial Services Ireland in November 2017.
- b) Croatia (National Bank of Croatia) – EBA – Intends to comply: By 30 June 2018. The new Anti Money Laundering and Terrorist Financing Law, which was published in Official Gazette No. 108/2017, entered into force as of 1 January 2018. Pursuant to the Article 98 and Article 154 item 3 of the new Anti Money Laundering and Terrorist Financing Law, the governor of Croatian National Bank shall issue subsidiary legislation in line with the Joint Guidelines to prevent terrorist financing and money laundering in electronic fund transfer, within a maximum period of 6 months after this Law enters into force.
- c) Latvia (Financial and Capital Market Commission) – EBA – Intends to comply: By 15.03.2019. The FCMC has developed a draft FCMC Regulations on Information to be Disclosed Upon Funds Transfers, which is currently being sent to market participants for evaluation. It is planned to adopt the Regulations in the FCMC Board by 15 March, 2019.
- d) Malta (FIAU) – EBA – Comply: As at 21.01.2019, notification date. On 25 October 2018, the Financial Intelligence Analysis Unit (“FIAU”) issued a guidance note - Guidance Note on Transfer of Funds having Missing or Incomplete Information - which guidance note reproduces the contents of these Joint Guidelines and renders them applicable at the national level. While drafting the Guidance Note, the FIAU held a brief consultation with the Malta Bankers’ Association and the Financial Institutions of Malta Association. The issued Guidance Note was also brought to the attention of obliged entities (subject

persons) in general by means of a newsletter. The said Guidance Note is binding in terms of law, as also set out in paragraph 5 thereof, with the FIAU empowered to enforce the same qua competent authority and impose administrative sanctions in the event that any payment service provider is found to have breached the same. As set out in the said Guidance Note, a reporting mechanism has also been established to allow payment service providers and intermediate payment service providers to report to the FIAU repeated failures to provide the required information on the payer or the payee. Copy of the said Guidance Note is accessible through the following link <http://fiumalta.org/library/PDF/misc/Guidance%20Note%20-%20Oct%202018.pdf> - and a soft copy of the same is being attached to the covering email.

- e) Portugal (Banco de Portugal) – EBA – Intends to comply: By 16 July 2018. A new regulation to complement the existing AML/CFT national law has been submitted, on 16 February 2018, to a process of public consultation. Once approved this regulation will bring into force the necessary measures to comply with the Joint Guidelines.
- f) United Kingdom (PRA) – EBA – Not applicable: The scope of the Guidelines are outside of the scope of PRA competence, and are therefore not applicable to the UK PRA. The relevant UK authority is responding.

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JC/GL/2017/37 (JC 2017 37) Joint Guidelines under Articles 17 and 18(4) of Directive (EU) 2015/849 on simplified and enhanced customer due diligence and the factors credit and financial institutions should consider when assessing the money laundering and terrorist financing risk associated with individual business relationships and occasional transactions - Compliance Notification Deadline – 5 March 2018

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The following competent authorities submitted the following notifications:

- a) Bulgaria (Българска народна банка – Bulgarian National Bank) – EBA – Comply: As at 05.02.2019, notification date. Relevant national laws and regulations: • Art.74a Law on credit institutions (LCI); Art. 79a (1) p.2 LCI; [http://bnb.bg/bnbweb/groups/public/documents/bnb\\_law/laws\\_creditinstitutions\\_en.pdf](http://bnb.bg/bnbweb/groups/public/documents/bnb_law/laws_creditinstitutions_en.pdf) Art. 24 (5) Law on the measures against money laundering (LMML); Art. 25(3) p.7 LMML; Art. 31 LMML; Art. 46 (3) LMML; Art. 50 LMML; Art. 51 (2) p.1; Art. 54 (7) Art. 22 Regulation on the implementation of the Law on the measures against money Laundering <https://www.dans.bg/>
- b) Czechia (Czech National Bank) – EBA – Comply: As at 19.02.2018, notification date. The obligation to follow the risk-based approach in respect of the anti-money laundering/ counter-terrorism financing preventive measures is already incorporated in the Act no. 253/2008 Coll., on the prevention of money laundering and terrorism financing (<http://www.financnianalytickyrad.cz/pravni-predpisy.html>). The Czech National Bank follows the joint guidelines in its supervisory practices and published the joint guidelines on the following links in the Czech and English languages: <https://www.cnb.cz/cs/dohled-financni-trh/legislativni-zakladna/legalizace-vynosu-z-trestne-cinnosti/metodicke-a-vykladove-materialy/#> <https://www.cnb.cz/en/supervision-financial-market/legislation/money-laundering/methodological-and-interpretative-documents/>
- c) Estonia (Finantsinspektsioon) – EBA – Intends to comply: By 27.11.2018. According to Money Laundering and Terrorist Financing Prevention Act § 101 (1), the obliged entity must bring its activity into compliance with the requirements of this Act within one year as of the entry into force of this Act. In Estonia, this Act entered into force on 27 Nov 2017, therefore, Finantsinspektsioon Intends to comply with these Guidelines by 27 Nov 2018.
- d) Ireland (Central Bank of Ireland) – EBA – Comply: As at 05.03.2018, notification date. The Central Bank of Ireland has implemented the guidelines contained in the Risk Factor Guidelines (“Guidelines”) into its supervisory processes without the requirement for legal amendment. The Central Bank has the appropriate powers to comply with the Guidelines within existing domestic legislation, as provided for in the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010, as amended, and the Central Bank Acts. On November 2nd 2017, the Central Bank of Ireland issued an Anti-Money Laundering bulletin. The main purpose of the bulletin was to provide guidance in relation to suspicious transaction reporting. However, this edition of the bulletin gave an opportunity to provide an update on some of the latest developments. Included in this was an overview of the Risk Factor Guidelines. The bulletin was published on the

Central Bank of Ireland website. <https://www.centralbank.ie/docs/default-source/Regulation/how-we-regulate/anti-money-laundering-and-countering-the-financing-of-terrorism/legislation/anti-money-laundering-bulletin-on-suspicious-transaction-reporting---november-2017.pdf?sfvrsn=3> The Central Bank of Ireland has published the Risk Factor Guidelines on its website. <https://www.centralbank.ie/regulation/anti-money-laundering-and-countering-the-financing-of-terrorism/guidance-on-risk>. The Central Bank of Ireland has also spoken at a number of outreach events with industry where it highlighted the publication of the Risk Factor Guidelines and the requirement to comply with these guidelines. As an example, please find attached presentation to Financial Services Ireland in November 2017.

- e) Greece (Bank of Greece) – EBA – Intends to comply: By 31.05.2019. Directive (EU) 2015/849 was transposed into the Greek legal framework on the 30th of July of 2018 by Law 4557. There are two specific provisions in art. 15, par. 3 and art. 16, par. 5 of the Law, authorizing competent authorities of the financial sector to issue detailed guidelines on the factors of higher and lower risk and the appropriate due diligence measures to be applied respectively, based explicitly on the Risk Factors Guidelines issued by ESAs. The Bank of Greece will issue the new Regulatory Act specifying the provisions of Law 4557/30.7.2018, which will include the incorporation of the Risk Factors Guidelines by 31/5/2019.
- f) Croatia (National Bank of Croatia) – EBA – Comply: As at 01.02.2019, notification date. In June 2018 Croatian National Bank has adopted Decision on the assessment procedure of the money laundering and terrorist financing risk and on simplified and enhanced customer due diligence measures in which it has implemented provisions of the Joint Guidelines under Articles 17 and 18(4) of Directive (EU) 2015/849 on simplified and enhanced customer due diligence and the factors credit and financial institutions should consider when assessing the money laundering and terrorist financing risk associated with individual business relationships and occasional transactions (JC/2017/37). The above Decision represents bylaw and is published in Official Gazette (57/2018.). Link to the Decision is given here ([https://narodne-novine.nn.hr/clanci/sluzbeni/full/2018\\_06\\_57\\_1178.html](https://narodne-novine.nn.hr/clanci/sluzbeni/full/2018_06_57_1178.html)).
- g) g)Croatia (Finance Inspectorate – Ministry of Finance) – EBA – Intends to comply: By 30.06.2019. Agents of payment service providers from other member states from non banking sector supervising by Financial Inspectorate apply the Decision on risk assessment procedure for money laundering and terrorist financing and the manner of implementing measures of simplified and enhanced due diligence, published in the official Gazette no. 57/2018. Link: [https://narodne-novine.nn.hr/clanci/sluzbeni/full/2018\\_06\\_57\\_1178.html](https://narodne-novine.nn.hr/clanci/sluzbeni/full/2018_06_57_1178.html). There is ongoing alignment of AMLCFT Law with the 5th AML Directive and consideration is being given to the adoption of one sub-legal act encompassing all providers of the same financial services regardless of who supervises them. If the above mentioned proposal is not adopted, upon completion of the legislative procedure the Financial Inspectorate will adopt a by-law, which will cover the scope of reporting entities within its competence (authorized exchange offices and consumer credit providers) - planned until 30 June 2019.
- h) France (Autorite de controle prudentiel et de resolution –ACPR) – EBA – Intends to comply: By such time as the necessary legislative or regulatory proceedings have been completed. The ACPR is about to comply with the joint guidelines. As mentioned in the previous compliance confirmation, several texts were necessary to bring them into force. At present, the decree implementing the 4th AML/CFT directive has been published and soft law instruments have been drafted or revised in the framework of the implementation of said directive (publication of Guidelines on politically exposed persons in March 2018, Guidelines on correspondent banking in June 2018 and Guidelines on customer identification, verification of identity and up-to-date knowledge in December 2018). The adoption of the National Risk Assessment by the “Conseil d’orientation de la Jute contre le blanchiment”, which is an independent public body, is about to take place. In addition, as regards the reservations mentioned during the adoption of these guidelines by the BoS, the ACPR is compliant, as the mere exchange of messaging capabilities such as SWIFT RMA are excluded from the scope of correspondent banking services, according to the 5th AML/CFT directive. Please note concerning the 5th AML/CFT directive, that ACPR is waiting for the Commission’s view on whether principal -to-principal relationships fall under the definition of.

- i) Latvia (Financial and Capital Market Commission) – EBA – Comply: As at 01.01.2019, notification date. Most of the risk factors are covered under the following regulatory framework: 1) FCMC Regulations No 2 of 9 January 2018 Regulations for Enhanced Customer Due Diligence (<http://www.fktk.lv/en/law/general/fcmc-regulations/7150-fcmc-regulations-no-2-regulations-for-enhanced-customer-du--diligence.html>) 2) FCMC Regulations No 3 of 9 January 2018 Regulatory Provisions for Credit Institutions and Licensed Payment and Electronic Money Institutions on Enhanced Customer Due Diligence <http://www.fktk.lv/en/law/general/fcmc-regulations/7149-fcmc-regulations-no-3-regulatory-provisions-for-credit-institutions-and-licensed-payment-and-electronic-money-institutions-on-enhanced-customer-due-diligence.html>) 3) FCMC Recommendation No. 152 of 25 September 2017 Recommendations to Credit Institutions for Identifying the “Red Flags” of Suspicious Transactions (<http://www.fktk.lv/en/law/credit-institutions/fcmc-regulations/6583-recommendations-to-credit-institutions-for-identifying-the-red-flags-of-suspicioustransactions.html>) 4) Article 11.1 (Customer Due Diligence Measures and Risk Factors) and Article 22 (Enhanced Customer Due Diligence) of the Law on the Prevention of Money Laundering and Terrorism Financing (<http://www.fktk.lv/en/law/general/laws/4260-2010-04-01-law-on-the-prevention-of.html>) However, the FCMC has drafted new Regulations covering all the provisions set in the above mentioned legal acts and supplementing with the EBA risk factors that were not covered by any of national measures yet. The draft Regulations have been sent to the industry for evaluation. It is planned to adopt the Regulations in the FCMC Board by the end of February, 2019.
- j) Malta (Malta Financial Services Authority – MFSA) – EBA – Intends to comply: By 26.06.2018. Annex A FIAU and MFSA Joint Notification of Compliance Compliance with the Joint Guidelines under Articles 17 and 18(4) of Directive (EU) 2015/849 on simplified and enhanced customer due diligence and the factors credit and financial institutions should consider when assessing the money laundering and terrorist financing risk associated with individual business relationships and occasional transactions (The Risk Factors Guidelines). Introduction The Financial Intelligence Analysis Unit (FIAU) is the authority in Malta responsible for monitoring compliance with AML/CFT requirements and is so authorised in terms of the Prevention of Money Laundering Act (Chapter 373 of the laws of Malta). AML/CFT requirements emanate from the aforementioned Act, The Prevention of Money Laundering and Funding of Terrorism Regulations (Subsidiary Legislation 373.01) as well as the Implementing Procedures (general and sectorial), which are guidance notes issued by the FIAU. In carrying out supervision for AML/CFT purposes the FIAU cooperates with other supervisory authorities, and in the case of the credit and financial institutions, with the Malta Financial Services Authority (MFSA). In order to ensure efficient and effective AML/CFT supervision a decision was taken late in 2016 to put in place a joint AML/CFT supervisory mechanism between the FIAU and MFSA, applicable to credit and financial services licence holders. As of 2017 a coordinated AML/CFT supervisory approach has been adopted and AML/CFT supervision is being conducted in a joint and integrated manner by the FIAU and MFSA. The MFSA has also established a dedicated AML Unit in 2015 which started gradually assuming the responsibility of assisting the FIAU in AML/CFT supervision. For this purpose, joint supervisory procedures have been adopted and a common AML/CFT Supervisory Handbook is currently being produced. This handbook will incorporate the MOU between the FIAU and the MFSA, a high level AML/CFT Supervisory Framework, the Risk Assessment and Monitoring Procedures, Joint Supervisory Procedures and common supervisory tools. Intention to fully comply with the Risk Factors Guidelines The FIAU and MFSA intend to fully comply with the Risk Factors Guidelines by 26th June 2018. As has been already notified, work is currently underway to fully comply with the Risk Based Supervision Guidelines, and the FIAU and MFSA should be fully compliant with such by November 2017. The Risk Factors Guidelines are another aspect of the Risk Based Approach and have already been taken into consideration in the development of data collection tools for the supervisory authorities’ risk assessment processes. It is the FIAU’s and MFSA’s intention to fully comply with the Risk Factors Guidance through amendments to the legal framework and more specifically through amendments to the FIAU’s Implementing Procedures which will provide detailed guidance to obliged entities to assist them in carrying out risk assessments and adopting a risk-based approach to fulfil their AML/CFT obligations. Concurrently the FIAU and the MFSA will also ensure that the supervision methodology for assessing the adequacy of firms’ risk assessments and AML/CFT policies and procedures takes into account the elements of the Risk Factors Guidance. Compliance through amendments to the legal framework The Maltese AML/CFT legal framework consists of three pillars, being the Prevention



of Money Laundering Act - PMLA (Chapter 373 of the Laws of Malta), the Prevention of Money Laundering and Funding of Terrorism Regulations - PMLFTR (Subsidiary Legislation 373.01) and the FIAU's Implementing Procedures. The FIAU's Implementing Procedures are issued in terms of Regulation 17(1) of the PMLFTR, hence such Implementing Procedures are legally binding on all subject persons and any failure to comply may lead to the imposition of administrative sanctions by the FIAU. The FIAU Implementing Procedures are split into two parts; Part I and Part II. Part I is the general guidance document applicable to all obliged entities. Part II on the other is composed of various sector specific guidance documents applicable to specific categories of obliged entities or covering specific activities. It is therefore the intention of the FIAU to incorporate Risk Factors guidance of a general nature in the Implementing Procedures Part I (being the general guidance document applicable to all obliged entities) and Risk Factors guidance which is specifically intended for credit institutions and other financial institutions will be incorporated in the respective sector-specific procedures. Compliance through the updating of the FIAU and MFSA joint supervisory processes The FIAU and MFSA carry out the joint AML/CFT supervision by conducting onsite and offsite compliance examinations. Given that firms will now be able to adjust the extent of their customer due diligence (CDD) and other AML/CFT measures according to the ML/FT risk they have identified, the risk based approach and the application of it, will become the focus of compliance examinations carried out by the Authorities. The AML/CFT Supervisory Handbook will therefore specifically cater for these Risk factors Guidelines and the supervisory process will ensure that credit and financial institutions and other obliged entities comply in applying CDD, SDD and EDD. Finally, both the FIAU and MFSA will provide for appropriate training and tools to assist their officers in this regard. Conclusion: The FIAU and MFSA intend to comply with The Risk Factors Guidelines by 26th June 2018.

- k) Austria (Financial Market Authority) – EBA – Comply: As at 27.02.2018, notification date. Art. 25 para 3 of the Financial Markets Anti-Money Laundering Act (Finanzmarkt-Geldwäschegesetz - FM-6wG, BGBl I Nr. 118/2016) stipulate as follows: (3) The FMA shall, in the enforcement of the provisions of this federal act, including the issuing of Regulations on the basis of this federal act and their enforcement, as well as on the basis of Regulation (EU) 2015/847 take into account European convergence in respect of supervisory tools and supervisory procedures. To this end, the FMA shall participate in the activities of the European Supervisory Authorities, and shall apply Guidelines, Recommendations and other measures decided upon by the European Supervisory Authorities. The FMA may deviate from the guidelines and recommendations of the European Supervisory Authorities when justified grounds exist to do so, in particular in the event of a conflict with provisions set out under national law." The FMA, in its AML/CFT guidance to financial institutions will take into consideration and also directly refer to the "Risk Factors Guidelines" where relevant.
- l) Poland (Komisja Nadzoru Finansowego) – EBA – Does not comply and does not intend to comply: In respect to the document JC 2017 37 "Joint Guidelines under Articles 17 and 18(4) of Directive (EU) 2015/849 on simplified and enhanced customer due diligence and the factors credit and financial institutions should consider when assessing the money laundering and terrorist financing risk associated with individual business relationships and occasional transactions" KNF declares that it will make every effort to comply with the said guidelines, with the following exceptions. KNF will not apply, nor will we expect the financial institutions operating in Poland to apply: - Section 19, fifth bullet point in fine, - Section 50 (i), - Section 51 and 52, to extent in which those section require financial institutions to apply measures set out in art. 20 of the Directive, to customers who's beneficial owner is a PEP. In our opinion art. 20 of the Directive, when saying: "( ... ) apply the following measures in cases of business relationships with politically exposed persons ( ... )" sets out actions which should be taken by financial institution, but only in cases where business relationship is directly established with a PEP. In cases where a customer's beneficial owner is a PEP, as identified in accordance with art. 20 (a) of the Directive, financial institutions take this finding into consideration when assessing the risk associated with the business relationship, and may decide to apply enhanced CDD measures. However we do not interpret art. 20 as in the Guidelines, requiring application of ECDD in every case where customer's beneficial owner is a PEP. This KNF's interpretation stems directly from FATF Recommendation 12, which distinguishes relations with foreign PEP's, and domestic and international PEP's, considering that business relations with the latter do not always have to constitute high risk situations. Therefore if a direct business relationship with a domestic or international PEP does not necessarily have to be high risk, so the business relationship with a customer

who's beneficial owner is a domestic PEP also doesn't have to be high risk. Automatic application of art. 20 in such cases is not prudent, and financial institutions based on their risk assessments and internal procedures should have to possibility to assess risk of such business relations. KNF will however expect all business relations with customers who's beneficial owner is a foreign PEP to be treated by financial institutions operating in Poland as high risk in accordance with art. 20 of the Directive.

- m) Portugal (Banco de Portugal) – EBA – Comply: As at 05.02.2019, notification date. Full compliance has been achieved as the necessary regulatory procedures have been adopted and additional elements to strengthen the risk-based approach already foreseen in domestic legislation have been implemented. With the entry into force of Law no. 83/2017 of 18 August 2017 and Notice of Banco de Portugal no. 2/2018 of 26 September 2018, Banco de Portugal has ensured complete compliance with the Guidelines herein referred. The aforementioned diplomas can be consulted at <https://www.bportugal.pt/legislacao/lei-no-832017-de-18-de-agosto> and <https://www.bportugal.pt/aviso/22018>
- n) Finland (Finanssivalvonta – FIN-FSA) – EBA – Intends to comply: By 30.09.2019. The amendments to the AML/CFT Act permitting compliance with Guidelines are in the parliamentary proceedings at the moment (Government's Proposal 16712018) and FIN-FSA's own regulations and guidelines concerning risk factors will be updated by the end of September 2019.
- o) United Kingdom (PRA) – EBA – Not applicable: The scope of the Guidelines are outside of the scope of PRA competence, and are therefore not applicable to the UK PRA. The relevant UK authority is responding.

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JC/GL/2018/35 (JC 2018 35, extension of JC/GL/2014/43) Joint Guidelines on complaints-handling to authorities competent for supervising the new institutions under PSD2 and/or the MCD – Compliance Notification Deadline – 4 December 2018

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The following competent authorities submitted the following notifications:

- a) Belgium (Financial Services and Markets Authority – FSMA) – comply: As at 05.12.2018, notification date. The National Bank of Belgium is not the competent authority for this matter. It was agreed that the Financial Services and Markets Authority (FSMA) will implement these guidelines for all regulated undertakings of the banking and securities sector, except for payment institutions, e-money institutions, payment initiation service providers, account information service providers, credit intermediaries and non-credit institution creditors for which the Federal Public Service Economy, S.M.E.s, Self-employed and Energy is the competent authority. The compliance notification provided is on their behalf.
- b) Bulgaria (Българска народна банка – Bulgarian National Bank – EBA – Intends to comply: This compliance notification pertains only to the financial institutions and activities in the Directives and Regulations that fall into the remit of the Bulgarian National Bank. This is the case for CRD, CRR, PSD 2 and EMD. We intend to comply with the requirements of the Guidelines under CRD and CRR from 04.12.2018. For the services under PSD 2 and EMD we intend to comply by the end of the first half of 2019. By contrast, the Mortgage Credit Directive (MCD) does not fall into the remit of the Bulgarian National Bank but of the Commission for Consumer Protection (CCP). We have made the CCP aware of these Guidelines, and they have indicated that they shall submit a separate compliance notification which BNB as a Contact Point under MCD will provide to you.
- c) Germany (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) – EBA – Intends to comply: By such time as the necessary legislative or regulatory proceedings have been completed. Ba Fin's notification refers to the extension of the scope of the JC guidelines for complaints-handling for the securities (ESMA) and banking (EBA) sectors (JC 2014 43) regarding payment institutions and non-credit institution creditors only. In order to fully implement the aforementioned extension, national law has to be amended by a formal act adopted by Parliament. With regard to credit intermediaries according to Article 4(5) MCD, BaFin is not the competent authority according to Article 5(3) MCD. However, referring to para. 9 d) of the Guidelines on complaints-handling for the securities (ESMA) and banking (EBA) sectors (JC 2018 35), please be informed that the Federal Ministry for Economic Affairs and Energy also intends to comply with the Guidelines by such time as the necessary legislative proceedings have been completed.

The transposition of the guidelines also requires amendments of national law which have to be adopted by Parliament.

- d) Croatia (Hrvatska narodna banka – Croatian National Bank) – EBA – Intends to comply: By such time as the necessary regulatory proceedings have been completed. The CNB intends to transpose the requirements of the GLs through the existing national “Guidelines for complaints-handling for credit institutions, payment institutions and e-money institutions”. These national guidelines should be renewed.
- e) Spain (Banco de España) – EBA – Intends to comply: By such time as the necessary legislative or regulatory proceedings implementing Directive (EU)2015/2366 and Directive (EU) 2014/17 have been completed, without prejudice to Spanish national provisions implementing these regulations and within the limit of the competencies conferred to Banco de España by these national provisions.
- f) Netherlands (Dutch Authority for the Financial Markets) – EBA – Intends to comply: The AFM intends to fully comply with these Guidelines by Q1 2020. To be specific, compliance with guideline 4 on data reporting in the banking sector will be further developed in 2019. The data reporting mechanism is expected to be operational by early 2020.
- g) Austria (Austrian Financial Market Authority) – EBA – Comply: With regard to the Guidelines applicable to credit intermediaries and non-credit institution creditors (as defined in Article 4(5) and (10) of the MCD respectively), the FMA is not the competent authority and therefore informed the Federal Ministry of Science, Research and Economy as the competent authority (BMDW).
- h) United Kingdom – PRA (EBA) – Not applicable: The scope of the Guidelines are outside the scope of the PRA’s authority, and are therefore not applicable to the UK PRA. The relevant UK authority (Financial Conduct Authority) is responding.
- i) ECB – EBA – Not applicable
- j) Liechtenstein (Financial Market Authority Liechtenstein – FMA) – EBA – Intends to comply: To the extent as they refer to the PSD2 and the MCD. The Guidelines inter alia refer to Directive (EU) 2015/2366 (PSD2) and Directive 2014/17 /EU (MCD). The Principality of Liechtenstein intends to implement PSD 2 in national law by autumn 2019. The MCD has not yet been incorporated into the EEA-Agreement. The FMA complies with the rest of the Guidelines.
- k) Norway (The Financial Supervisory Authority of Norway) – EBA – Intends to comply: The Norwegian FSA intends to comply with the guidelines once PSD2 as been implemented into Norwegian law.

At the time of compilation and printing of the 2018 Annual Report, the two-month compliance notification periods of the following Guidelines had not yet ended:

- EBA/GL/2018/02 Guidelines on the management of interest rate risk arising from non-trading book activities – Compliance Notification Deadline – 20 February 2019
- EBA/GL/2018/03 Guidelines on the revised common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing – Compliance Notification Deadline – 20 February 2019
- EBA/GL/2018/04 Guidelines on institutions’ stress testing – Compliance Notification Deadline – 20 February 2019
- EBA/GL/2018/07 Guidelines on the conditions to benefit from an exemption from the contingency mechanism under Article 33(6) of Regulation (EU) 2018/389 (RTS on SCA & CSC) – Compliance Notification Deadline – 25 March 2019

Non-compliance on guidelines and recommendations issued in 2018, but for which the compliance notification period is not due until 2019, would be reported upon in the 2019 annual report.

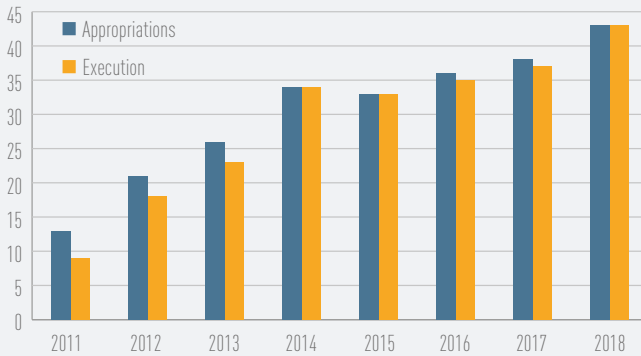
### **Statistics on disclosure**

The Legal Unit deals with requests relating to transparency and public access to documents. Within the remit of Regulation (EC) No 1049/2001, the Legal Unit provided its advice on nine formal requests for access to information.

Facts and figures

**FINANCE**

Annual budgets avsexecution (in million EUR)



▶ Total budget: **EUR 38.875 million**

▶ Budget execution: **99.85%**

▶ Carry forward to 2019: **EUR 3.318 million**  
(2.6% of commitments)

**PROCUREMENT**

▶ New open procurement procedures: **2**

▶ Negotiated procedures (+EUR 15 000): **14**

▶ EBA participation in other EU institutions framework contracts: **55**

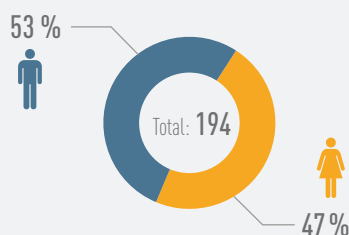
**HUMAN RESOURCES**

Total number of staff

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

Gender	Temporary Agents				Total
	AD	AST	CA	SNE	
Female	58	6	23	5	92
Male	78	0	17	7	102
<b>Total</b>	<b>136</b>	<b>6</b>	<b>40</b>	<b>12</b>	<b>194</b>

Gender balance



▶ Posts from the establishment plan filled by year-end: **145**

▶ Vacancy notices published: **34**  
(17 TA, 8 CA and 9 SNE), and 13 for reserve lists

▶ Number of applications received: **1 198**  
104 interviewed

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

▶ Trainees: **9**

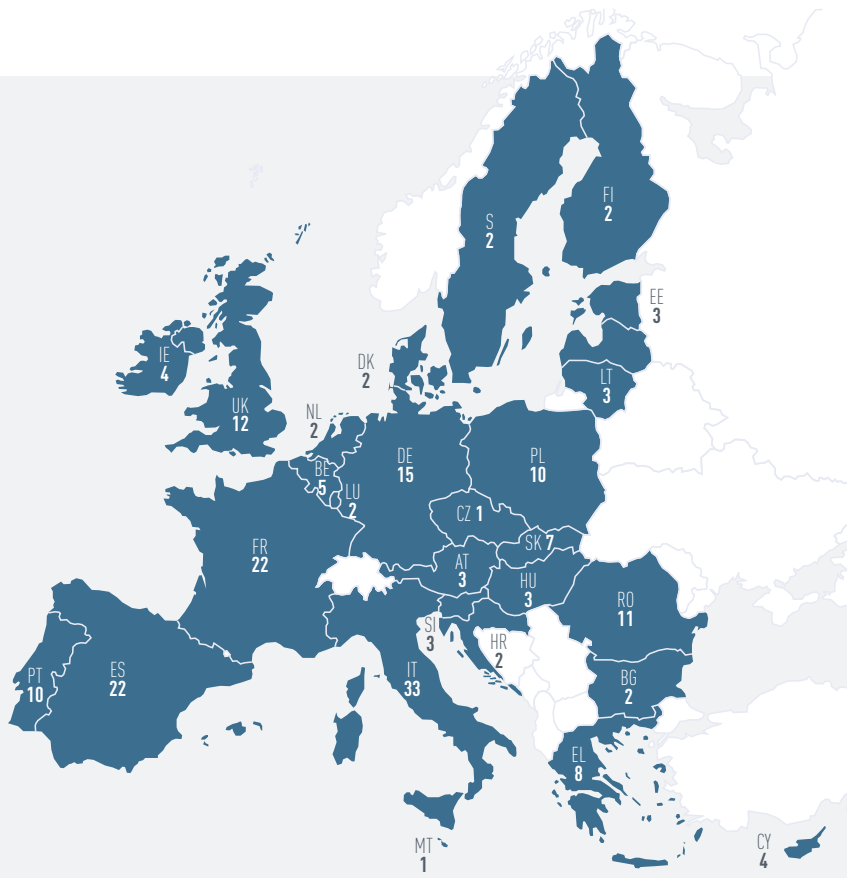
▶ Interims: **42**

**HUMAN RESOURCES**

**Geographical balance**

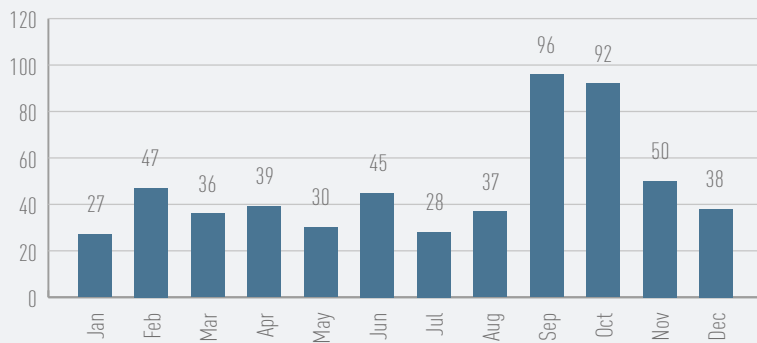
Breakdown by nationalities of all contract types

▶ Average number of training days by staff member: **1.84**



**EVENTS**

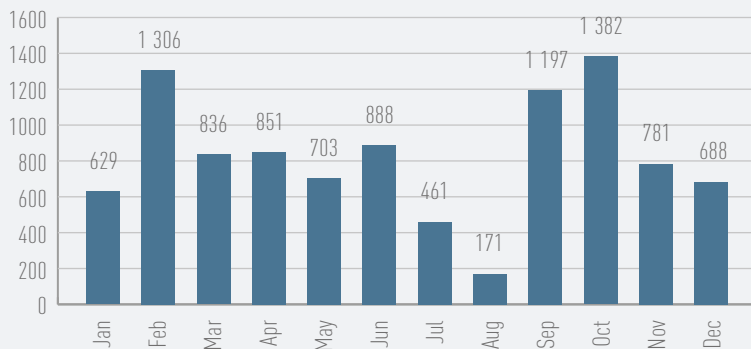
**Number of events organised by the EBA in 2018**



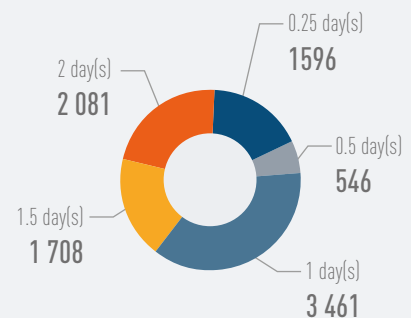
▶ Total number of events: **656**

▶ Total number of participants: **9 889**

**Number of participants in 2018**



**Breakdown by event duration**



**TRAINING PROVIDED TO COMPETENT AUTHORITIES**

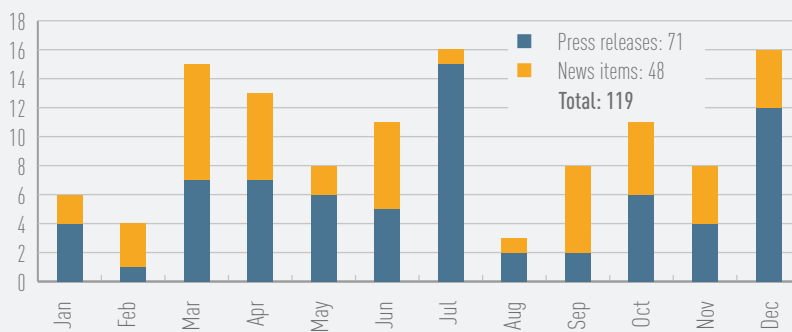
▶ Online: **7**  
for 538 participants

▶ Webinar: **1**  
for 77 participants

▶ Physical: **18**  
for 995 participants

**PRESS AND COMMUNICATION ACTIVITIES**

Number of communications outputs by month



Breakdown of interaction with media

▶ Interviews and background briefings: **43**

▶ Responding to external queries: **917**

▶ Responding to information requests: **1 610**

Translation and editing

▶ Final EBA publications proofread and published: **58**

▶ Publications translated in the 22 official languages of the EU: **10**

**WEBSITE AND SOCIAL MEDIA**

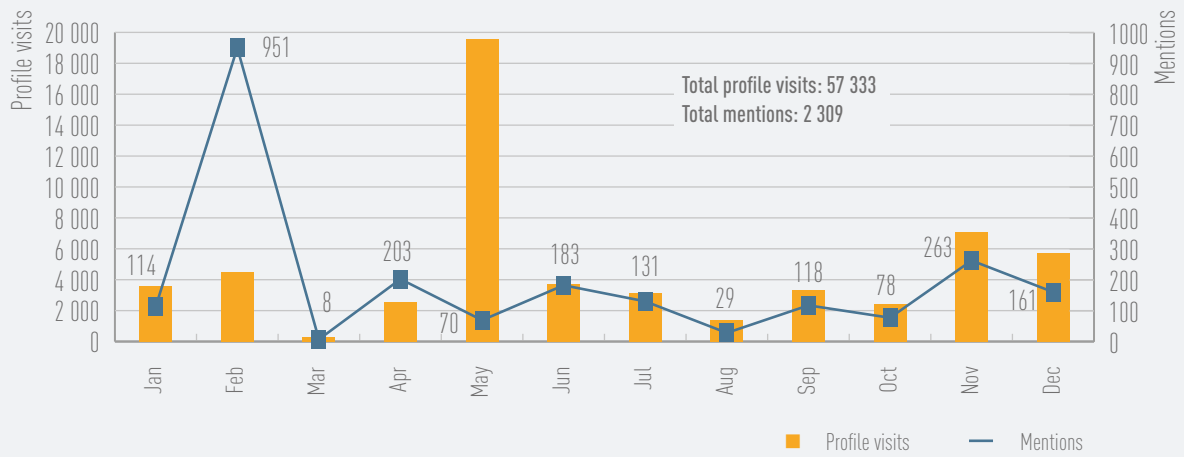
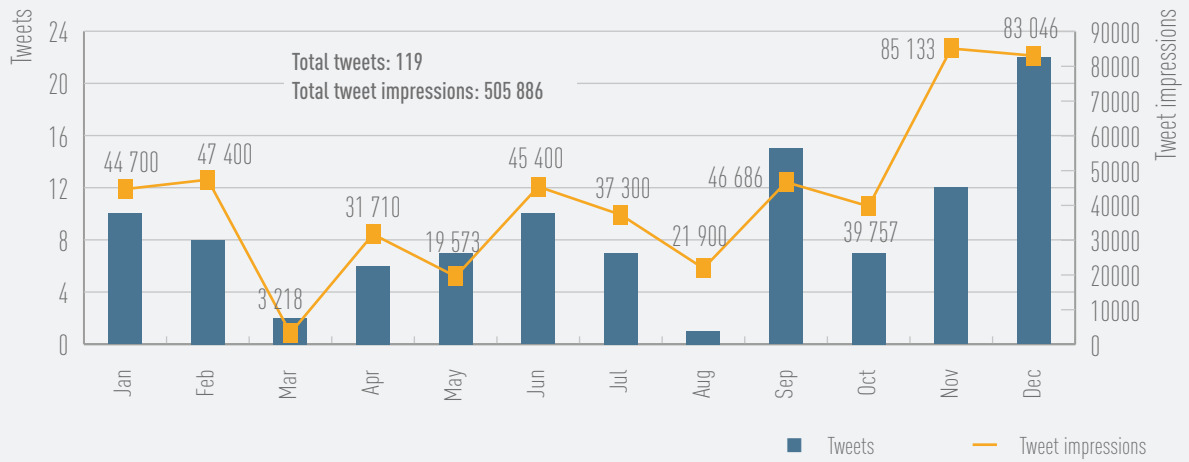
Website visits

▶ EBA website visits: **3.17 million**  
(+12.6 % in comparison to 2017)

▶ Page views: **10.1 million**  
(+1.17 % in comparison to 2017)

Country	Users	Percentage
United Kingdom	210,082	15.27%
Germany	164,366	11.95%
United States	134,793	9.80%

Social media presence





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