

ANNUAL REPORT 2014



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Abbreviations

AIFMD	Alternative Investment Fund Managers Directive	DG FISMA	Directorate-General for Financial Stability, Financial Services and Capital Markets Union
AMA	Advanced Measurement Approaches	DG JUST	Directorate-General for Justice and Consumers
AMLD	Anti-Money Laundering Directive	DGS	Deposit Guarantee Scheme
AMLR	Anti-Money Laundering Regulation	DGSD	Deposit Guarantee Schemes Directive
AQR	Asset Quality Reviews	DIGIT	Directorate-General for Informatics
ARC	Accounting Regulatory Committee	DRAT	Detailed Risk Analysis Tools
AT1	Additional Tier 1	EAD	Exposure At Default
BCBS	Basel Committee on Banking Supervision	EBA	European Banking Authority
BoS	Board of Supervisors	EC	European Commission
BRRD	Bank Recovery and Resolution Directive	ECAIs	External Credit Assessment Institutions
BSG	Banking Stakeholder Group	ECB	European Central Bank
BTS	Binding Technical Standards	ECOFIN	Economic and Financial Affairs
CBLs	Core Business Lines	ECON	Economic and Monetary Affairs
CCP	Central Counterparties	EDPS	European Data Protection Supervisor
CCR	Counterparty credit risk	EEA	European Economic Area
CEBS	Committee of European Banking Supervisors	EFC	Economic and Financial Committee
CFDs	Contracts for Difference	EFC-FST	Economic and Financial Committee of the Council
CFs	Critical Functions	EFRAG	European Financial Reporting Advisory Group
CET1	Common Equity Tier 1	EIOPA	European Insurance and Occupational Pensions Authority
CMGs	Crisis management groups	EMIR	European Market Infrastructure Regulation
CMU	Capital Markets Union	ESAs	European Supervisory Authorities
COREP	Common Reporting Requirements	ESCB	European System of Central Banks
CRA3	Credit Rating Agencies Regulation	ESFS	The European System of Financial Supervision
CRD	Capital Requirements Directive	ESMA	European Securities and Markets Authority
CRR	Capital Requirements Regulation		
CSD-R	Central Securities Depositories Regulation		
CSDs	Central Securities Depositories		
CTF	Counter Terrorism Financing		
CVA	Credit Valuation Adjustment		
DG BUDG	Directorate-General for Budget		

ESRB	European Systemic Risk Board	NBB	National Bank of Belgium
ETFs	Exchange-Traded Funds	NCA s	National Competent Authorities
EU	European Union	OSSG	Official Sector Steering Group
FFR	Framework Financial Regulation	OTC	Over-the-counter
FICOD	Financial Conglomerates Directive	PAD	Payment Accounts Directive
FINREP	Financial Reporting Framework	P&L	Profit and loss
FSAP	Financial Services Assessment Programme	PD	Probability of Default
FSB	Financial Stability Board	PIE	Public Interest Entities
GL	Guidelines	PII	Professional Indemnity Insurance
G-SIBs	Global Systemically Important Banks	PPM	Project Portfolio Management Tool
G-SIIs	Global Systemically Important Institutions	PSD	Payments Services Directive
IAS	Internal Audit Service	PSD2	Revised Directive on Payments Services
ICS	Internal control standards	PSPs	Payment Service Providers
IFRS	International Financial Reporting Standards	QIS	Quantitative Impact Study
IMF	International Monetary Fund	RAR	Risk Assessment Report
IOSCO	International Organization of Securities Commissions	RCAP	Regulatory Consistency Assessment Programme
IRB	Internal Ratings Based	ResCo	Resolution Committee
IRC	Incremental Risk Charge	RRD	Recovery and Resolution Directive
ITS	Implementing Technical Standards	RRPs	Recovery and Resolution Plans
KID	Key Information Document	RTS	Regulatory Technical Standards
KRIs	Key Risk Indicators	RWAs	Risk weighted assets
KTB	Corporate Commercial Bank AD	SecuRe Pay	Security of Retail Payments
LCR	Liquidity Coverage Ratio	SFTs	Securities financing transactions
LDP	Low Default Portfolios	SMEs	Small and medium-sized enterprises
LGD	Loss Given Default	SRB	Single Resolution Board
LR	Leverage Ratio	SREP	Supervisory Review and Evaluation Process
MCD	Mortgage Credit Directive	SRM	Single Resolution Mechanism
MiFIR	Markets in Financial Instruments Regulation	SSM	Single Supervisory Mechanism
MoU	Memorandum of Understanding	UCITS	Undertakings for the collective investment in transferable securities
MREL	Minimum requirement for own funds and eligible liabilities	VAT	Value-added tax
		VCB	Commercial Bank Victoria EAD

Andrea Enria



Foreword by the Chairperson

2014 marked an important milestone for the European Banking Authority (EBA). After four years of intense work, I believe we are now reaping the fruits of our efforts to shape a new and stronger regulatory and supervisory framework for European Union (EU) banks. The Single Rulebook has become a reality in banking, with the EBA's standards being applied for the first time throughout the EU. The EU-wide asset quality review and stress test represented a significant step forward in the repair of banks' balance sheets, paving the way to a successful start of the Banking Union. Also, our work on convergence of supervisory practices and consumer protection took a new impetus, setting the stage for an important shift in the focus of the EBA's work in the years to come.

Let me start with the progress in the development of the Single Rulebook. The G20 reforms were a catalyst for coordinated global regulatory responses and were essential in establishing the core elements of the new global financial regulatory framework. But in the EU it was essential to implement the new international standards through a set of truly homogeneous rules that are legally binding across the 28 Member States of the Union. This was a key objective assigned to the EBA. It became even more urgent with the Banking Union, as both the Single Supervisory Mechanism (SSM) at the European Central Bank (ECB) and the Single Resolution Mechanism (SRM) could not work properly if the rules they had to apply in their own jurisdictions were to vary according to the implementation choices made in each Member State. Moreover, the Single Rulebook took up a new meaning by underpinning the integration of the Single Market for all the 28 Member States of the Union, and becoming a necessary bridge between countries participating in the Banking Union and others that for the time being have decided not to join.

The construction of the Single Rulebook is at a very advanced stage: by the end of 2014 we had issued 93 technical standards: in concrete terms, this means that EU banks of all types and sizes are now facing truly uniform definitions of key supervisory aggregates, for instance a common definition of non-performing loans and forbearance, common definitions of capital and of high quality liquid assets and a single framework for supervisory reporting – to mention but a few. In addition, 40 more standards (to be finalised by end 2015) are in the pipeline, and so some further work will still be needed in 2016. But by the end of that year, the whole reform package should be in place and we will have a stable and strong regulatory framework, giving certainty to the banking industry and supervisors alike after an intense period of regulatory changes.

We have also developed a user-friendly interactive Single Rulebook through which questions can be submitted to the EBA and the European Commission (EC), thus ensuring that implementation issues find common responses which are valid for all European banks. This tool provides concrete visibility to the Single Rulebook, by bringing together the primary legislation, the delegated acts of the Commission, the EBA's standards and guidelines, as well as the relevant questions and answers.

In some areas, the primary legislation has left room for options and national discretions, which may hinder the level playing field. Some of these choices are left to competent authorities, and the SSM is putting great efforts to move to a common implementation of these elements of discretion within the euro area. I strongly support this endeavour and look forward to a new regulatory approach in the future, which provides all banks with a common regulatory framework, without any room for options and national discretions, while the specificities of local markets and peculiar business models could be appropriately addressed via an appropriate use of the concept of proportionality.

The Single Rulebook has become more varied in its content, as it now includes also the implementation of the Bank Recovery and Resolution Directive (BRRD). This is one of the most important challenges for regulators across the world: putting an end to the "too big to fail" issue. In the EU, this is even more important, as the reliance on national safety nets has created the perverse link between banks and their sovereigns, which nullified most of the progress achieved towards a truly integrated Single Market. We have worked closely with supervisors and resolution authorities to en-

sure consistency across functions, as well as across Member States. The bulk of the Single Rulebook in this area is expected to be completed in 2015.

I note with satisfaction the progress achieved also in the second area of work that has absorbed most of our resources in these first years of activity: the policy pressure to strengthen the capital position of EU banks and to promptly address the deterioration in the quality of their assets. The 2014 EU-wide asset quality review and stress test led to a significant increase in the capital levels at major EU banks. EU banks' capital ratios are now at 12 %, similar to the levels of their US peers.

The unprecedented transparency the whole exercise provided to market participants contributed to restoring confidence in their resilience. Our role as the data hub has been vital in this respect as the disclosure of reliable and comparable information on EU banks is a key element, which puts all market participants in a better position to understand the situation of EU banks. The exercise has required massive coordination across the EU. For the first time, it fully benefited from the input of the European Systemic Risk Board (ESRB). In particular, this was also the first test in our cooperation with the SSM, which devoted extensive resources and efforts to complete the Comprehensive Assessment of the banks in its jurisdiction, which was a prerequisite before the start of the Banking Union. The success of this exercise is also a result of this cooperation. We see great value in maintaining a common EU-wide stress test, covering banks headquartered both inside and outside the jurisdiction of the SSM, and on the basis of last year's experience, we are now busy developing an approach that we can use on a regular basis in the future.

Instrumental to restoring confidence in how risks are measured and managed is also our work to address inconsistencies in the calculation of risk weighted assets (RWAs). This is an extremely challenging task and we have already published several analytical reports with the objective of identifying any material differences in RWA outcomes, understanding the sources of such differences and formulating the necessary policy solutions to enhance convergence between banks and to improve disclosure.

Finally, as the efforts in rule-making and policy coordination were bearing their fruits, we intensified our work to support greater convergence of supervisory practices and to fulfil our mandate in the area of consumer protection. Building on our experience in supervisory colleges and in the first rounds of joint decisions, we developed guidelines on the supervisory review and evaluation process (SREP) under Pillar 2, which aims at providing a common framework and methodologies for assessing business models, internal governance, risks and finally capital and liquidity adequacy. Besides promoting convergence in practices, the guidelines should sharply reduce the differences in the assessments of home and host authorities and allow for a more focused mediation by the EBA in cases of disagreements.

We are also investing in other convergence tools, such as benchmarking and training. These efforts are in line with the findings of the review of the European System of Financial Supervision (ESFS), which called for renewed efforts on supervisory convergence.

We also achieved important tangible results in the area of consumer protection, where our monitoring of consumer trends and financial innovation has driven a number of products on responsible mortgage lending, product oversight and governance, security of internet payments and innovative practices and tools such as crowd-funding and virtual currencies. The mandates entrusted to the EBA by the revised Directive on Payment Services (PSD2) and the fourth Anti-Money Laundering Directive (AMLD) will further strengthen our role in underpinning the security and integrity of the banking sector.

The credit for all this work goes to our team of highly motivated and committed staff who have managed to produce an incredible amount of high quality products under very tight deadlines, and to the wider network of experts from national and European authorities who bring their valuable expertise to our task forces, working groups and committees.

Interview with the Executive Director

Adam Farkas

1) The institutions of the EU have assessed the work of the EBA in its first three years of existence and also its performance in times of crisis. How would you summarise their assessment?

In 2014, the European Commission, European Parliament, European Council and European Court of Auditors provided their evaluations on the performance of the EBA and the other two European Supervisory Authorities (ESAs), since their establishment in 2011. Although each analysis had a different focus, I was pleased to see that all EU institutions have recognised and praised the progress made by the EBA in building a functional organisation and delivering its planned mandates, most notably by developing common rules and taking steps forward on supervisory convergence across the whole Single Market. The intense and productive regulatory activity speaks for itself: by the end of 2014, we launched 64 consultations and published 32 technical standards, 17 guidelines, 1 recommendation, 14 opinions and 23 reports. And I would also like to underline that the EBA has been able to deliver high-quality products in a timely manner despite significant budgetary and human resources constraints, something that has been acknowledged by the EU institutions in their respective reports. The reports have also highlighted limitations in the EBA's legal mandate in various areas, more specifically in consumer protection, supervisory convergence, stress testing, binding mediation between EU supervisory authorities, and our involvement in EU legislative negotiations. Still, I am proud that even in the abovementioned areas and against these limitations, we have still managed to do some good work. Jonathan Hill, the recently appointed EU Commissioner for Financial Stability, Financial Services and Capital Markets Union, recently spoke about the high quality of our work and acknowledged that the EBA managed to prepare large volumes of draft implementing legislation under tight deadlines and he considered that our very positive cooperation with the Commission has been fundamental to the successful development of the single banking market.

Just to give a few examples, the role of the EBA in the 2014 EU-wide stress test has been crucial too in providing a common methodology and common benchmarks to test the resilience of the capital positions of EU banks. The results of the exercise in October 2014 provided an unprecedented level of transparency into EU banks' balance sheets, a key factor to drive market discipline and reinforce investors' confidence across the entire EU Single Market.



In September 2013, virtual currencies emerged on our radar as one of the many innovations to monitor in the area of consumer protection. Following three months of analysis, we issued a public warning on 13 December 2013 to make consumers aware that virtual currencies were not regulated and they could lead to unmitigated risks as a result. Following our warning, many national supervisory authorities across the EU followed suit issuing similar warnings, and in May 2014, the Commission announced that it was closely following developments on digital and virtual currencies in order to assess whether they should and could be regulated.

2) What are the major operational challenges you have had to face in these first three years? Are they likely to be addressed in the near future?

One of most significant operational challenges we had to face was the relocation of our offices in London which took place in December 2014. Our new offices in the Canary Wharf area offer spaces of better quality for EBA staff, with a greater number of rooms for public meetings, which can now take place in the same building. This move has also, and most significantly, brought very relevant economies in terms of costs.

In order to ensure appropriate space layout, as well as a smooth transition to the new premises, staff were regularly consulted and updated on various issues related to the move. Members from each department were nominated as 'move ambassadors' and gave their feedback on all office related matters, including layout, furniture, breakout areas and also logistics for the move. A quarterly newsletter was also circulated to staff so that they could keep up to date on the progress of works.

Details of the relocation were also posted on the website to ensure that all external stakeholders were made aware of the changes in advance. The move went smoothly and was successful, and all in all it has turned out to be a positive change, with much positive feedback from staff and visitors.

The move took place in a moment of increasing budgetary pressure, something we have been experiencing over the past years.

This also brought severe constraints to our financial resources and headcount, making the timely delivery of the EBA work programme more and more difficult. In 2014, we were finally forced to review our work programme during the course of the year, informing the Commission of expected delays in the submission of some of our regulatory products. Unfortunately, the outlook for 2015 indicates a further deterioration of our resource constraints.

3) Has the recent establishment of the SSM within the ECB affected the operational functioning of the EBA? What is the interaction between the SSM and the EBA?

The financial crisis of the past years revealed weaknesses within the EU Single Market and the need to overhaul the EU supervisory and regulatory framework. This led to the establishment of the ESFS in 2011, of which the EBA was a part. However, the supervision of financial institutions remained within the responsibility of national competent authorities. The continued sovereign crisis was exacerbated by the remaining close links between the national fiscal positions and national financial systems, urging a deeper integration of banking supervision within the Eurozone. The decision of the EU to establish the SSM for banks

in the Eurozone was a first step towards an integrated Banking Union and a strengthened economic and monetary union. In this new setup, the EBA's role of harmonising rules and promoting convergence of supervisory practices across the EU remained unchanged and crucial for an effective functioning of the SSM. The EBA regulatory work aims to ensure an equal treatment of all market participants and a level playing field for all the banks in all 28 EU member states within and outside the Eurozone. Our main role of developing a Single Rulebook for the EU banking sector is vital to preserve the integrity of the Single Market and avoid any fragmentation that may result. The SSM has become part of the EBA's governance and participates in all of the EBA's Board meetings as the largest single supervisor of the EU, whereas the non-SSM countries have gained extra protection of their interest under the new voting mechanism introduced with the set-up of the SSM. In this respect, the changes to our governance structure and voting system should further improve the capacity of our Board of Supervisors (BoS) to take decisions in the interest of the EU as a whole, and ensure the effectiveness of our role as mediator between home and host countries.

4) One of the new areas of work where the EBA will play a central role is that of recovery and resolution. What progress have you achieved so far and what will be the next milestones in this area?

The BRRD entered into force on 2 July 2014. This EU legislative framework, which introduces a harmonised set of rules for managing the resolution of credit institutions and investment firms in a consistent manner across all 28 EU member states, ensures that failing banks do not endanger financial stability and losses are borne by shareholders and creditors, instead of EU taxpayers.

Since the summer of 2014, we at the EBA have been busy under the BRRD framework providing draft technical standards and guidelines, working with supervisors and resolution authorities to issue close to 30 consultation papers. The aim of this work has been to ensure that resolution authorities — and, even more importantly, other stakeholders such as investors and banks — have a clear and common understanding of how the powers in the BRRD should be applied. Resolution is a collective action problem and in order to ensure it functions efficiently, all concerned stakeholders (banks, investors, depositors, analysts, market gatekeepers, supervisors, resolution authorities, governments) need to have ex ante clarity and confidence on the rules of engagement.

Our regulatory products in this field focused on three aspects: the first fleshes out the triggers for the various actions in the BRRD and how these are linked to the normal assessments of the banking supervisors. This is particularly important to minimise the potential for duplication of work or conflicting assessment of prudential supervisors and resolution authorities. The second explains the principles on which a valuation of a failing bank should be based, and how this valuation should inform the terms on which a bail-in is conducted. And the third sets out minimum standards for resolution planning and how the resolution authority's broad powers to require changes to how banks are run in order to remove impediments to resolution should be used. In each of these three areas, inconsistent national approaches would sooner or later lead to conflicts affecting the free flow of funds within EU banking groups. These technical standards and guidelines will provide a basis for consistent decisions, and the EBA will be vigilant to ensure that coordinated and cooperative approaches prevail.

5) How does the EBA coordinate its international efforts with other EU institutions and organisations outside the EU?

The EBA has maintained regular and close contacts with other EU institutions and EU supervisory authorities, as well as third countries regulatory and supervisory authorities, think tanks and international standard setters. In particular, since the establishment of the SSM we have had regular contacts with the ECB and have established close cooperation with the SSM in the context of the EU-wide stress test, as well as in the development of the Single Supervisory Handbook and reestablishment of colleges of supervisors. We have been actively involved in the work of several

international bodies, most importantly in the work of the Basel Committee, both at policy and more technical level in several specialist working groups and task forces, such as on capital, liquidity, leverage ratio, accounting, large exposures and securitisation. We have also been involved in some work streams of the Financial Stability Board (FSB), including its cross-border crisis management group and resolution steering group. Last but not least, we have cooperated with the International Monetary Fund (IMF) in their assessment and analytical efforts, and we have held bilateral supervisory and regulatory discussions with relevant authorities in the United States, Japan, China, and Australia.

The EBA's role in the evolving European supervisory and resolution architecture

The EBA was established on 1 January 2011, at the height of the financial crisis, as part of the ESFS and took over all existing responsibilities and tasks of the Committee of European Banking Supervisors (CEBS).

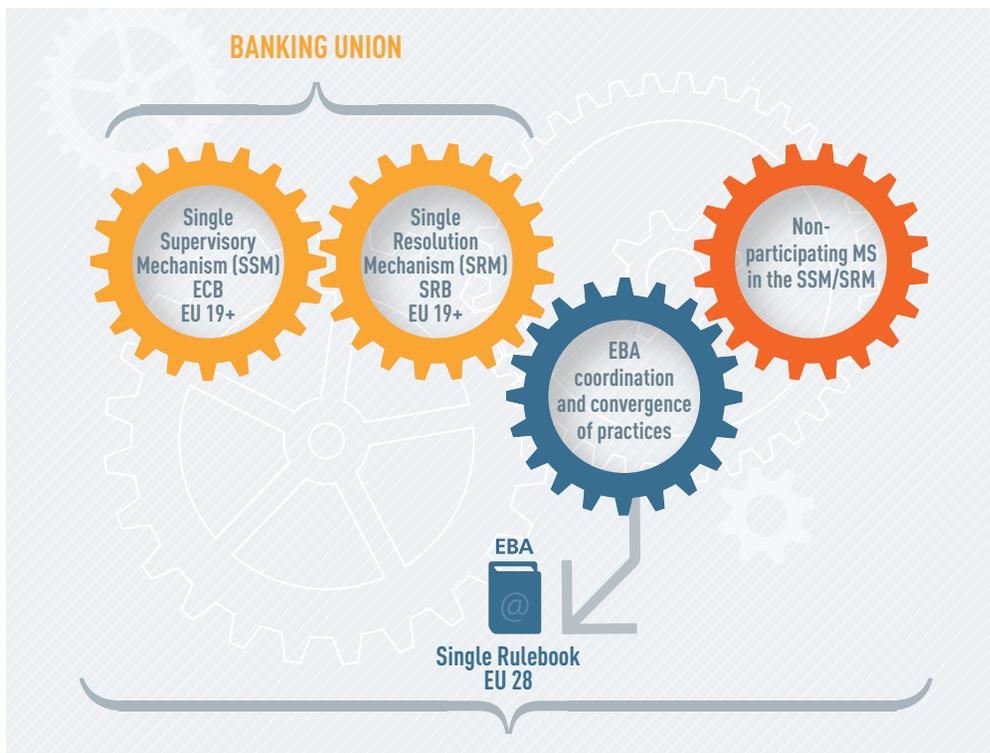
The EBA is an independent Authority whose mission is to build a single regulatory and supervisory framework for the entire banking sector in the 28 EU Member States, so as to ensure an efficient, transparent and stable Single Market that benefits its consumers, businesses and the broader economy.

One of the main tasks of the EBA is to contribute to the development of the European Single Rulebook in banking whose objective is to provide a single set of harmonised prudential rules for financial institutions throughout the EU. The Authority also plays an important

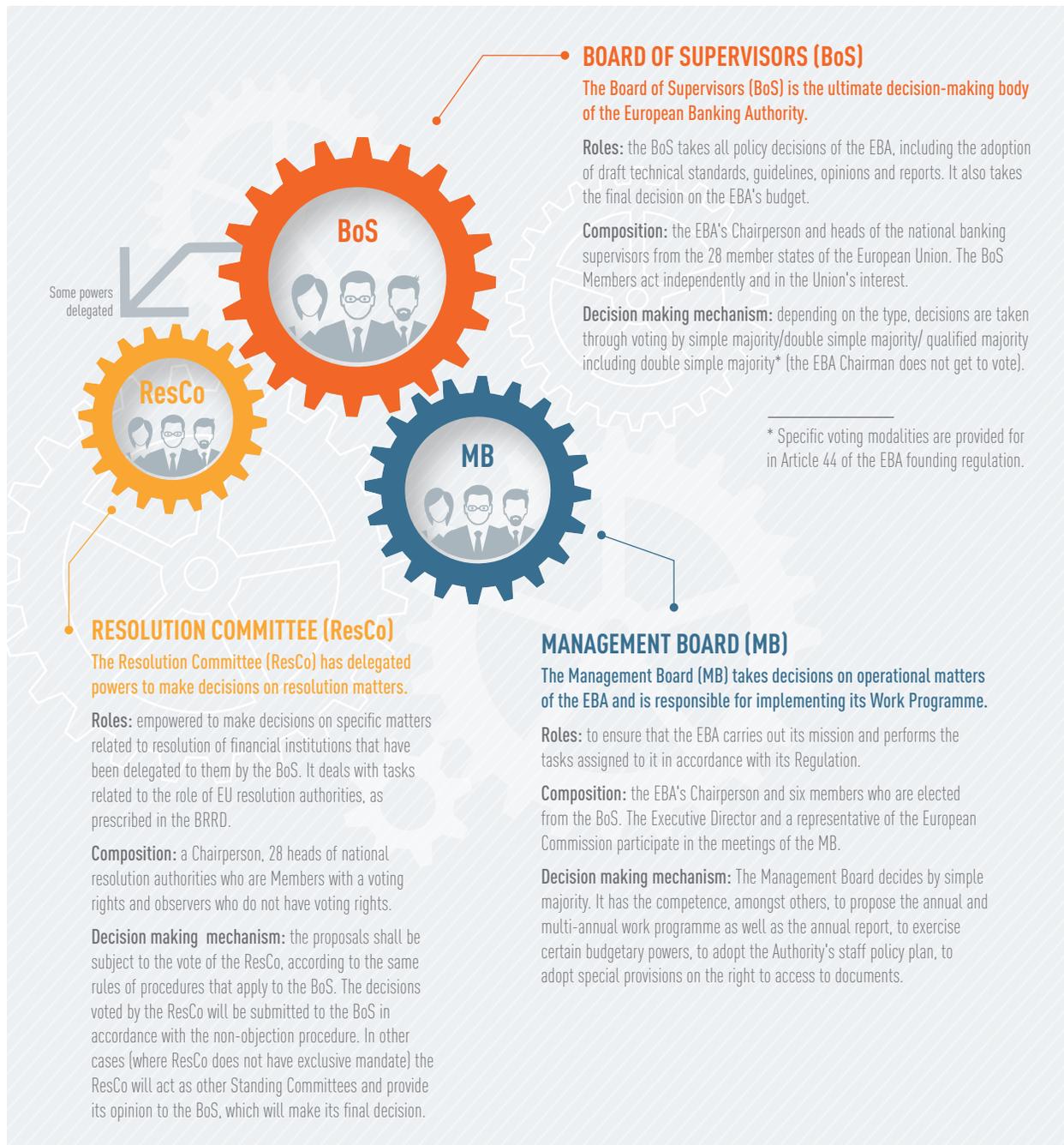
role in promoting convergence of supervisory practices and cross-border supervisory cooperation for those banking groups that operate in more than one EU country.

In addition, the EBA is mandated to assess the impact of market developments in order to identify risks and vulnerabilities across the EU banking system and acts as a centralised disclosure hub for supervisory data on EU banks, with the aim of enhancing transparency, fostering market discipline and promoting financial stability across the EU. The EU-wide bank stress test exercise, which is coordinated by the EBA, is one of the supervisory tools for this purpose and the Risk Dashboard and Risk Assessment Reports provide regular assessment and monitoring of the main risks and vulnerabilities in the EU banking sector.

Figure 1: The EBA's role in the Banking Union



The EBA's governance structure



Finally, the EBA promotes a transparent, simple and fair internal market for consumers of financial products and services and helps ensure that all consumers in the banking sector are treated fairly and in the same way.

The continued sovereign debt crisis affecting the Eurozone in the past four to five years and following the global financial crisis, has renewed the need for deeper financial integration in the Eurozone. The agreement by the

EU institutions to centralise powers for the supervision of banks, the restructuring and resolution of distressed banks, and common funding arrangements, known as the Banking Union project, is a key policy response to this call. The first two pillars of Banking Union, the SSM and the SRM are now in place.

The EBA's role in the evolving supervisory and resolution architecture remains unchanged, although the new institutional architecture

has entailed some strategic shifts of its work and resources. As illustrated in Figure 1, under the Banking Union, the EBA plays a role in safeguarding the integrity and stability of the EU banking sector and in holding the Single Market together. This is crucial, especially with respect to its two core functions:

- **Developing the Single Rulebook in banking for the EU as a whole.** This is fundamental to the smooth functioning of the Banking Union as constant supervision and resolution cannot be delivered without consistent regulations. The Single Rulebook is fundamental to avoid fragmentation of the Single

Market between Banking Union members and non-participating Member States.

- **Promoting the coordination and convergence of supervisory and resolution practices.** Work in this area — for example, on the EBA Supervisory Handbook — supports the SSM and SRM in delivering a consistent approach across Member States, reduces the risk of splits in the Single Market, and enables authorities to share knowledge and experience. The EBA will, in particular, promote joint decisions between home and host authorities through its mediation role and participation in colleges.

Review by EU institutions of the functioning of the EBA

2014 was an important year for the ESAs. The European Commission, the European Parliament, the Council of the EU as well as the European Court of Auditors all discussed, analysed and reported on the functioning of the ESAs, in the first comprehensive review of the ESAs and the ESFS since their establishment in 2011.

The report by the Commission ^[1], published in August 2014, was prepared in line with Article 81 of the ESAs Regulations which require the Commission to publish a general report every three years on the experience acquired as a result of the operations of the ESAs. It was preceded by a report by the European Parliament ^[2] published in February 2014, which built on the findings of a study by the Mazars ^[3] consulting group who were commissioned by the Parliament. This was followed by the publication of a special report in July 2014 by the Eu-

ropean Court of Auditors on the performance of the EBA during the financial crisis ^[4], and finally, by the adoption by the Economic and Financial Affairs Council (ECOFIN) of the conclusions on the ESFS review ^[5] in November 2014.

All of the institutions concluded that despite difficult circumstances, the EBA had quickly established a well-functioning organisation and had made significant progress towards being recognised as an Authority in its own right.

The EU institutions positively assessed the EBA's performance against its broad range of tasks, in particular its significant contribution to the development of the Single Rulebook across the Single Market. They recognised this had been achieved in the face of significant budgetary and human resources constraints as well as a constant increase in number of mandates and tasks attributed to the EBA by the EU legislators.

The reviews by the EU institutions provided some recommendations to improve the EBA's effectiveness and efficiency, in particular for its role in supervisory convergence and consumer protection, as well as enhancement of its internal governance processes. They also

[1] Commission's report on the review of the ESFS:
http://ec.europa.eu/finance/general-policy/docs/committees/140808-esfs-review_en.pdf

[2] European Parliament's report on the ESFS review:
<http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+REPORT+A7-2014-0133+0+DOC+XML+V0//EN#>

[3] Mazars' report:
[http://www.europarl.europa.eu/RegData/etudes/etudes/join/2013/507446/IPOL-ECON_ET\(2013\)507446_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/etudes/join/2013/507446/IPOL-ECON_ET(2013)507446_EN.pdf)

[4] European Court of Auditors' report on performance of EBA during the financial crisis:
http://www.eca.europa.eu/Lists/ECADocuments/SR14_05/SR14_05_EN.pdf

[5] ECOFIN Council conclusions on the ESFS review:
http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/145696.pdf

recognised limitations in the EBA's legal mandate in various areas, in particular consumer protection and supervisory convergence, as well as in relation to the EBA's role in stress testing, binding mediation between competent authorities, and its involvement in legislative negotiations at EU level.

The EBA provided significant quantitative and qualitative input to the EU institutions to support their assessments. The EBA acknowledges the results of the reviews, and appreciates the positive assessment of the EBA, as well as the recognition of the legal limitations on the EBA which constrain the full deployment of its mandate.

ONGOING ACTIVITY

In the area of regulatory policy, a substantial amount of new tasks are envisaged from the EBA in the coming years in relation to the SRM and the BRRD. During the negotiation process on this comprehensive legislative framework, a number of tasks for the EBA have been extended considerably. They extend beyond the rule-making role (development of about 40 draft technical standards, guidelines and technical advice to the Commission), to cover areas such as the facilitation of cooperation and coordination of Recovery and Resolution Plans (RRPs) and in the event of resolution actions, interaction with third countries, and monitoring of application of the Directive.

In addition, a wide variety of legislations and legislative proposals in the area of financial and banking regulation have attributed new tasks to the EBA and the expansion of existing EBA tasks. In particular, these include the Capital Requirements legislation (CRDIV/CRR) and the Deposit Guarantee Schemes Directive (DGSD), as well as the Audit Regulation, AMLD, Anti-Money Laundering Regulation (AMLR), European Market Infrastructure Regulation (EMIR), Financial Conglomerates Directive (FICOD), and Regulation on the structural measures in the EU banking sector.

While the EBA's regulatory work in the above areas will continue to be focused on developing draft regulations and implementing technical standards and guidelines, requests to the EBA from the Commission to provide technical contributions to the EU legislative processes will increasingly gain prominence between 2016 and 2018. Such requests include developing various reports on a number of important topics (for example, reports in the areas of liquidity and leverage rules and their calibration, and loss absorbency capacity and minimum eligible requirements for bail-in), and the monitoring of implementation and calibration of rules.

In light of the increase in the number of mandates and tasks mandated by EU legislations, and considering the cuts in budgetary resources available to the Authority, the EBA has decided to amend its Work Programme for the coming years, which will result in deprioritising and delaying the submission of a number of tasks.

2014 deliverables

JANUARY

RTS The EBA publishes final draft technical standards on own funds requirements for investment firms

REC Recommendation on the use of the Legal Entity Identifier (LEI) for supervisory purposes

EBA announces key features of the 2014 EU-wide stress test

FEBRUARY

REP EBA, ESMA and EIOPA publish final report on mechanistic references to credit ratings in the ESAs' Guidelines and Recommendations

The EBA publishes risk dashboard of EU banking sector

DP The EBA launches discussion on the impact on the volatility of own funds of the accounting and prudential changes in the treatment of defined benefit pension plans

RTS The EBA publishes final draft technical standards on classes of instruments used for variable remuneration

ITS ESMA-EBA publishes the results of their joint review of the Euribor-EBF.

The EBA, ESMA and EIOPA consult on final draft technical standards on the mapping of ECAs credit assessments

REP The EBA publishes consumer trends report

RTS The EBA consults on final draft technical standards for the specification of margin periods of risk for the treatment of clearing members exposures to clients

MARCH

REP The EBA reports on impact of possible leverage ratio definitions

The EBA publishes results of the Basel III monitoring exercise as of 30 June 2013

CP The EBA consults on draft technical standards on data waiver

CP The EBA, ESMA and EIOPA consult on supervisory practices for financial conglomerates

RTS The EBA publishes final draft technical standards on own funds (Part IV)

RTS The EBA final draft technical standards on own funds

RTS The EBA publishes final draft technical standards on additional collateral outflows

RTS The EBA publishes final draft technical standards on liquidity requirements

CP The EBA consults on a revised XBRL Taxonomy for supervisory reporting

GL The EBA publishes Guidelines on the applicable notional discount rate for variable remuneration

RTS The EBA publishes final draft technical standards on prudent valuation

APRIL

GL The EBA consults on revised Guidelines on remuneration benchmarking and data collection for high earners

CP The EBA, ESMA and EIOPA consult on draft technical standards for the European Market Infrastructure Regulation (EMIR)

The EBA updates its Work Programme for 2014

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

ITS	The EBA final technical standards on supervisory reporting endorsed with amended calendar
	The EBA publishes list of incorrect ITS validation rules
	The EBA publishes action plan for colleges of supervisors
	The EBA publishes common methodology and scenario for 2014 EU-banks stress test
	The European Supervisory Authorities highlight cross-sectoral risks
	The EBA launches data collection exercise on CVA
MAY	
	The EBA publishes risk dashboard for EU banking sector
CP	The EBA consults on final draft technical standards on the treatment of equity exposures under the IRB approach
	The EBA publishes revised list of incorrect ITS validation rules
	The EBA publishes list of Common Equity Tier 1 (CET1) capital instruments
	ECB and the EBA update the classification system for their reporting frameworks
CP	The EBA consults on technical standards on supervisory benchmarking of internal approaches for calculating capital requirements
OP	The EBA publishes Opinion on measures to address macroprudential or systemic risk
	The EBA releases updated template for the data collection exercise on CVA
JUNE	
ITS	The EBA publishes final draft technical standards on disclosure for the leverage ratio
ITS RTS GL	The EBA publishes final draft technical standards and Guidelines on methodology and disclosure for global systemically important institutions
	The EBA streamlines Single Rulebook Q&A tool
	The EBA launches Interactive Single Rulebook
	The EBA publishes report on comparability of risk weighted assets for residential mortgages REP
CP	The EBA consults on technical standards on assessment methodologies for the use of advanced measurement approaches for operational risk
REP	The EBA publishes report on benchmarking of remuneration practices in the EU
CP	The EBA consults on draft Guidelines related to disclosure requirements for the EU banking sector
	The EBA informs on liquidity reporting templates
	Highlights from the ESAs Joint Consumer Protection Day
GL	ESMA and the EBA publish harmonised Guidelines for handling consumer complaints across the EU
	The EBA issues revised list of ITS validation rules
RTS	The EBA publishes final draft technical standards on the minimum monetary amount of the professional indemnity insurance
	The EBA analyses impact of pension plans in capital
REP	The EBA publishes report on risks and vulnerabilities of the EU banking sector
CP	The EBA consults on technical standards on the permanent and temporary uses of the IRB approach
GL	The EBA publishes Guidelines on disclosure of encumbered and unencumbered assets
CP	The EBA consults on technical standards on countercyclical buffer disclosure
GL	The EBA publishes Guidelines on harmonised definitions and templates for funding plans of credit institutions

JULY		GL	Guidelines
		RTS	Regulatory Technical Standards
		ITS	Implementing Technical Standards
		CP	Consultation Paper
		DP	Discussion Paper
		REC	Recommendation
		REP	Report
		OP	Opinion
OP	EBA supports capital treatment of covered bonds, but calls for additional eligibility criteria		
OP	EBA advises on the prudential filter for gains and losses from own credit risk related to derivatives		
OP	EBA proposes potential regulatory regime for virtual currencies, but also advises that financial institutions should not buy, hold or sell them whilst no such regime is in place		
RTS	EBA publishes final draft technical standards on the margin periods of risk for the treatment of clearing members exposures to clients		
RTS	EBA publishes final draft technical standards on conditions for assessing materiality of extensions and changes of internal approaches for market risk		
GL	EBA publishes final Guidelines on significant credit risk transfer for securitisation transactions		
OP	EBA publishes new XBRL taxonomy for remittance of supervisory reporting as of 30 September 2014		
	EBA advises the European Commission on the macroprudential rules laid down in the CRR/CRD		
CP	EBA consults on resolution planning and on measures to address impediments to resolvability		
CP	EBA consults on tests, reviews and exercises that may lead to public support measures		
	EBA publishes Q&As and additional template for CVA data collection exercise		
CP	EBA consults on technical standards on independent valuers		
GL	EBA publishes revised Guidelines on high earners data collection and remuneration benchmarking		
	EBA issues revised list of ITS validation rules		
GL	EBA publishes final draft technical standards and guidelines on recovery plans RTS		
CP	EBA consults on criteria to assess other systemically important institutions (O-SIIs)		
OP	EBA issues Opinion on a structural measure impacting limits to intra-group large exposures notified by France		
CP	EBA, ESMA and EIOPA consult on technical standards for financial conglomerates risk concentration and intra-group transactions		
	EBA publishes peer review on the implementation of credit concentration risk guidelines		
ITS	EBA issues revised version of some of its technical standards		
	The Joint Committee of the ESAs reminds financial institutions of their responsibilities when placing their own financial products with consumers		
ITS	EBA issues amended technical standards on supervisory reporting for institutions		
CP	EBA consults on technical standards on home host cooperation in the EU banking sector		
CP	EBA consults on a framework for common supervisory procedures and methodologies		
	EBA publishes lists for the calculation of capital requirements for credit risk		
AUGUST			
	EBA issues revised set of Q&As on supervisory reporting		
CP	EBA consults on criteria for intervention on structured deposits under MiFIR		
RTS	EBA publishes final technical standards on the treatment of equity exposures under the IRB approach		
	EBA welcomes the publication of the European Commission report on the operation of the ESFS		
	EBA publishes new XBRL taxonomy for remittance of supervisory reporting as of 31 December 2014		
	EBA publishes final templates for the 2014 EU-wide stress test		

SEPTEMBER	
	EBA publishes results of the Basel III monitoring exercise as of 31 December 2013
GL	EBA publishes Guidelines on recovery and resolution
CP	EBA consults on the implementation of resolution tools
	EBA investigates possible breach of EU law in Bulgaria
CP	EBA consults on the eligibility of institutions for simplified obligations for recovery and resolution planning
CP	EBA consults on qualitative and quantitative recovery plan indicators
	EBA introduces new feature to its Single Rulebook Q&A tool
ITS	EBA publishes indicators from global systemically important institutions (G-SIIs)
	EU Supervisory Authorities update on risks in EU financial system
CP	EBA consults on guidelines on payment commitments to deposit guarantee schemes
CP	EBA consults on triggers for early intervention and resolution
OCTOBER	
	EBA announces 2014 EU-wide stress test publication date
	EBA releases work plans for 2015
CP	EBA consults on simple, standard and transparent securitisations and their potential regulatory recognition
	EBA and ECB step up cooperation to make retail payments safer
	EBA discloses probe into EU bankers allowances
	Updated list of identified Financial Conglomerates
	EBA publishes 2014 EU-wide stress test results
	EBA issues revised list of ITS validation rules
	Responses of Bulgarian authorities to EBA recommendation
CP	EBA consults on implementation of Guidelines on internet payments security
	EBA notifies breach of EU law to Bulgarian authorities
OP	EBA advises on the application of prudential requirements for credit and investment institutions
	EBA, ESMA and EIOPA publish addendum to joint consultation on mapping of ECALs
CP	EBA consults on materiality threshold of credit obligation past due
NOVEMBER	
CP	EBA consults on contractual recognition of bail-in
CP	EBA consults on Guidelines aimed at standardisation of fee terminology for payment accounts in the EU
CP	EBA consults on valuation in recovery and resolution
CP	EBA consults on guidelines on product oversight and governance arrangements for retail banking products
CP	EBA consults on Guidelines on the use of the bail-in power
CP	EBA consults on assessment methodology for IRB approach
	ESAs share initial views on consumer-friendly Key Information Documents on investment products across the EU
	ESAs launch call for expressions of interest to support work on PRIIPs
OP	EBA publishes an Opinion on the perimeter of credit institutions
CP	EBA consults on criteria for determining the minimum requirement for own funds and eligible liabilities (MREL)
CP	EBA consults on methods for calculating contributions to Deposit Guarantee Schemes

DECEMBER		GL	RTS	ITS	CP	DP	REC	REP	OP
	EBA invites input on passport notification requirements for mortgage credit intermediaries								
TEC	EBA issues final technical advice on criteria and factors for intervention on structured deposits under MiFIR								
	EBA updates its risk dashboard for EU banking sector								
CP	EBA consults on creditworthiness assessment under the MCD								
CP	EBA consults on treatment of mortgage borrowers in arrears								
	EBA provides overview on the implementation and transposition of the CRD IV package								
CP	EBA consults on amending ITS on LCR and LR reporting								
	EBA publishes criteria to assess other systemically important institutions (O-SIIs)								
	EBA issues revised list of ITS validation rules								
	Repeal of the EBA capital preservation recommendation								
ITS	EBA publishes final draft technical standards on joint decisions for approval of internal models								
CP	EBA consults on the functioning of resolution colleges								
ITS GL	EBA publishes final technical standards and Guidelines on resolution planning								
GL	EBA issues Guidelines to strengthen requirements for the security of internet payments across the EU								
OP	EBA publishes Opinion on waiver addressing potential concentration problems for covered bonds								
GL	EBA publishes final Guidelines on SREP methodologies and processes								
ITS RTS	EBA publishes final draft technical standards on supervisory colleges								
REP	EBA publishes its sixth semi-annual report on risks and vulnerabilities of the EU banking sector								
CP	EBA consults on procedures and contents of notifications under the recovery and resolution regime								
	ESAs tackle cross-selling practices in the financial sector								
GL	The Joint Committee of the ESAs publishes final Guidelines on consistency of supervisory practices for financial conglomerates								
	EBA calls for improving the well-functioning of the securitisation market								
RTS	Joint Committee of the ESAs publishes final draft technical standards on risk concentration and intra-group transactions								
	ESAs seek views on Guidelines aimed at reducing reliance on credit ratings								
	EBA updates list of Common Equity Tier 1 (CET1) capital instruments								
RTS	EBA publishes final draft technical standards on countercyclical buffer disclosure								
RTS	EBA publishes final draft technical standards on data waiver								
GL	EBA publishes final Guidelines on disclosure requirements for the EU banking sector								

Figure 2: Summary list of EBA products delivered in 2014

Regulatory Technical Standards	22	Consultation Papers	64
Implementing Technical Standards	10	Discussion Papers	3
Guidelines	17	Peer reviews	1
Recommendations	1	Stress tests	1
Opinions/Advice	14	Trainings organised for competent authorities (including cross-sectoral trainings)	20
Reports	23		

Achievements in 2014

In 2014, the EBA made significant progress in delivering on its mandates in and continued its crucial role in safeguarding the integrity and stability of the EU banking sector. Among notable achievements was the further development of the Single Rulebook in banking, the continued promotion of supervisory convergence and assessing risks as well as activity to ensure transparency in the EU banking sector. In addition, the EBA continued its work protecting consumers and monitoring financial innovation.

Completing the Single Rulebook in banking

One of the main tasks of the EBA is to contribute to the development of the Single Rulebook to provide one set of rules that govern the EU banking sector and which take into account the varied European banking structures. Within the Single Rulebook the EBA lays the regulatory foundations for a single EU banking sector, comprising both Euro and non-Euro areas. The EBA's role is to ensure consistency and convergence in the application of these rules in supervisory and resolution practices.

The EBA fulfilled this task by producing binding technical standards, reports, guidelines and opinions that led to a convergent application of Level 1 banking legislation, specifically the Capital Requirements Regulation (CRR), Capital Requirements Directive (CRD) and the BRRD. The EBA went a step further and also

provided responses to stakeholders' questions regarding the application of specific provisions in Levels 1 and 2 banking regulation.

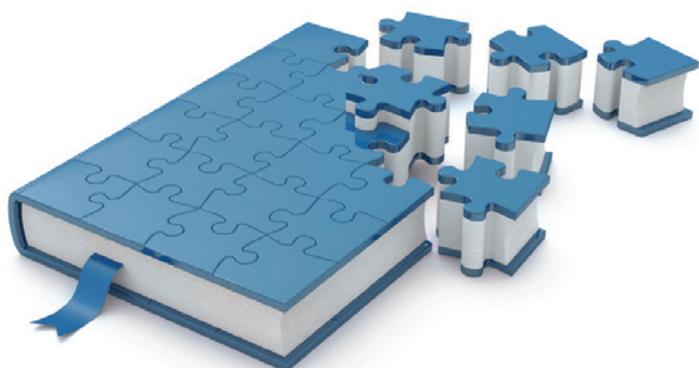
In 2014 the EBA's activity in developing the Single Rulebook encompassed areas including use of internal models, common reporting frameworks, supervisory convergence, bank recovery and resolution, remuneration and progress in the area of own funds.

Fostering convergence and restoring confidence in the use of internal models

The EBA has worked to restore confidence in the use of internal models for capital purposes. In addition, the EBA aims to foster convergence in modelling practices and to reduce the variability observed in RWAs.

Considerable time has passed since the possibility of use of internal models for capital purposes was introduced in the Basel Framework in 1996 for Market Risk and in 2004 for Credit and Operational Risks. The use of internal models brings clear benefits, such as an increase in the risk sensitivity of the capital framework as well as improvements in risk management practices of institutions and a more risk-focused supervision; however, internal models also pose challenges and supervisory risks, which need to be addressed.

It is clear that different practices and internal model methodologies applied by institutions, as well as divergent supervisory implementation standards, may have led to an excessive dispersion in the calculation of RWAs and, on occasions, may have also produced an underestimation of own funds requirements for certain instruments. In this regard, as noted in Box 1, since 2012 the EBA has already conducted several exercises in order to assess the consistency of RWAs for credit and market risk internal models.



Additionally, models are complex and require continuous monitoring and assessment after the initial validation. In particular, any material changes must be assessed and approved by the supervisor.

European legislators have acknowledged the need to introduce several additional checks and balances regarding the use of internal models for capital purposes. As a consequence, following a number of mandates contained in Directive 2013/36/EU (CRD) and Regulation No (EU) 575/2013 (CRR), the EBA has worked on the following three elements to restore confidence in the use of models:

- 1) To draft regulatory technical standards (RTS) and implementing technical standards (ITS) applicable in the broad area of internal models.
- 2) To provide tools for supervisors to assess the outcomes of models in the form of EU-wide supervisory benchmarks.
- 3) To improve transparency concerning the use of models to help markets understand differences in outcomes and promote market discipline.

The technical standards set requirements for institutions currently using, or planning to use, internal models for credit, market and/or operational risk, but they also affect processes and practices which supervisors apply for the assessment of internal models, as well as the periodic assessment of the outcomes obtained from these models.

The ultimate objective of these technical standards is to foster convergence in modelling practices, reduce the variability observed in RWAs and, finally, help to restore the confidence in the use of internal models.

Materiality of model extensions and changes

The monitoring and assessment of model changes by competent authorities is an ongoing supervisory process that has so far lacked consistency across the EU. To achieve a consistent approach for the ongoing supervision of internal models it is therefore important to harmonise the process to be followed when changes are introduced.

In this regard, Articles 143(5), 312(4)(b) and (c), 363(4)(a) of Regulation (EU) No 575/2013 (CRR) contain specific mandates for the EBA to develop draft regulatory technical standards (RTS) to specify the conditions for assessing the materiality of extensions and changes of internal models when calculating minimum own funds requirements for credit, market and operational risk. Those changes and extensions identified as material in these RTS are subject to prior authorisation by competent authorities, other changes only need to be notified.

For the purposes of supervisory convergence, these RTS introduce common minimum engagement levels for competent authorities supervising institutions with approved internal models. The standards follow a similar structure, where a list of the qualitative conditions for classification of extensions and changes to the internal models is provided and, in addition, quantitative thresholds are introduced as 'back-stop' measures, for those extensions and changes which may be classified as less material following the qualitative criteria, but may still alter significantly the own funds requirements.

The EBA submitted to the EC the draft RTS for the internal models used for credit and operational risks at the end of 2013 (they came into force in mid-2014) while the draft RTS on internal model approach for market risk were submitted in the middle of 2014.

Assessing the methodology for the use of internal models

The EBA has also been developing three draft RTS to specify the methodology competent authorities should follow when assessing the compliance of institutions with the requirements to use internal models for credit, market and operational risk. This is in accordance with the mandates set out in Articles 144(2), 312(4)(a) and 363(4)(b) of the Regulation (EU) 575/2013.

It is expected that these draft RTS will significantly increase harmonisation of the supervisory assessment methodology across all EU Member States. This should foster convergence in practices, limit discretionary areas currently allowed for internal modelling and

help reduce the variability observed in RWAs calculated using internal models.

The consultation papers for the RTS on credit and operational risk internal models were produced in 2014, while the EBA is currently working on the consultative paper for the RTS on market risk internal models. The final three draft RTS will be submitted to the EC by the end of 2015.

Supervisory benchmarking of internal models

In the aftermath of the financial crisis, questions were raised as to whether significant differences in the calculation of RWAs were fully justified. Accordingly the EBA and other international bodies have been conducting significant work on the comparability of capital requirements leading to a greater understanding of the consistency of RWAs.

This work has consisted of:

- the release or drafting of regulatory products (technical standards and guidelines) to harmonise the conditions of use of internal models and their outcomes;
- assessments of the consistency of the outcomes of these models (dedicated reports and benchmarking);
- transparency concerning the use and outcomes of models.

In Directive 2013/36 EU (CRD) European legislators have acknowledged the need to constrain the inconsistent calculation of RWAs for equivalent portfolios. The EBA, following the mandate set out in CRD Article 78, has

developed RTS and ITS to assist competent authorities in assessing the quality of internal models on credit and market risk through the use of benchmark portfolios. In particular, the EBA has defined the standards for the assessments as well as the procedures for sharing the conclusions and the benchmarking portfolios used in the assessment.

When developing these ITS and RTS, the EBA built on the significant work already conducted on the comparability of capital requirements computed through Internal Ratings Based (IRB) approach for credit risk and market internal risk models, including a series of benchmarking exercises run in 2013 and 2014. This work has improved understanding of the drivers behind differences observed in RWAs across EU institutions and contributed to the identification of areas that require regulatory attention. This work is a key part of the EBA's effort to restore confidence in banks' capital and internal models.

The regular benchmarking exercises organised under these technical standards will be conducted by all institutions that currently use internal models to determine their own funds requirements, both for credit and market risks, and will play a crucial role in improving comparability of capital requirements calculated by all institutions across the EU.

The EBA has also sought to enhance transparency about internal models and their outcomes via disclosure of data under a consistent format and using consistent definitions. This is the case for instance of Guidelines applying Article 432 and 433 of Regulation (EU) No 575/2013 (CRR) (see below Transparency), which will lead to more frequent disclosures by at least some of the most important institutions.

In addition, the EBA has published detailed bank-by-bank data on RWAs, as part of the EU-wide stress test disclosure, as well as country-level data on risk parameters (Exposure At Default (EAD), Loss Given Default (LGD), Probability of Default (PD)) and observed variables (default rate, loss rate), as an annex to the Risk Dashboard. This helped investors and market analysts understand differences in outcomes and promote market discipline.

ONGOING ACTIVITY

The final draft RTS and ITS on supervisory benchmarking will be published in the first half of 2015, together with a response to the Commission's Call for Advice on the functioning of the benchmarking process which is set out in Article 78 of the CRD. The first full exercise based on the legal text will be conducted in Q4 2015.

BOX 1 — The EBA's work to enhance consistency of RWAs

The EBA has worked on thematic issues concerning the consistency of RWAs since 2012 and produced reports, under its own initiative, in 2013 and 2014. The Commission has mandated the EBA to assess RWAs consistency and comparable capital requirements.

To this end, the EBA continued its work on promoting convergence of institutions' methodologies for calculating RWAs under the IRB approach as well as for market risk internal models. The ongoing EBA work on benchmarking, supervisory consistency, and transparency are crucial to restoring trust in internal models and the way banks calculate the risk of their assets.

In addition to developments in the regulatory framework at the European and international level, for which the EBA acts as a driving force or fully contributes to the work (see section supervisory benchmarking of internal models), the EBA has continued its analytical work on the outcome of internal models in terms of RWAs and the reasons for differences.

In mid-2014, the EBA released its fourth report on the consistency of risk weighted assets, focused on a drill-down analysis of residential mortgages. The report analysed whether different variables observed on residential mortgage exposures could explain differences in risk weighting across

EU banks. The analysis confirmed that a positive correlation existed between the value of the different variables and the risk-weighting of EU banks, with indexed loan to value being the variable that most significantly influenced risk-weighting variation at the overall EU level.

In 2014, the EBA also started further analysis on market risk and on the large corporate, financial institutions and sovereign portfolios (the so-called Low Default Portfolios [LDP]). The benchmarking exercise for credit risk, which started in 2014 with an ad hoc data collection exercise and involved 41 of the European Economic Area (EEA) banks, will be finalised in 2015. These benchmarking exercises have been preparatory steps ahead of a full supervisory benchmarking exercise to be run in a recurrent manner in the EU under Article 78 CRD. A future supervisory benchmarking exercise is to take place at least annually using templates developed and portfolios chosen by the EBA in cooperation with competent authorities. The benchmarking tool will, to a large extent, enable both competent authorities and institutions to compare the outcomes of their models, by paying special attention to differences in capital requirements for the same exposures and investigating cases of major divergence of an institution from its peers, before taking corrective actions, if needed.

Towards a more coherent Credit Valuation Adjustment (CVA) framework

Under Article 456(2) of the CRR, the EBA was mandated to monitor the own funds requirements for CVA risk and to submit a report to the Commission as a basis for possible amendments to be made via the delegated act to the current CVA framework. The report had

to assess the scope of the CVA risk charge, the calculation of capital requirements of CVA risk, eligible hedges and the treatment of CVA risk as a stand-alone charge versus an integrated component of the market risk framework.

In order to provide supporting evidence for the recommendations made in the report, the EBA launched a data collection exercise with Euro-

ONGOING ACTIVITY

The EBA is expected to publish its CVA Report in the first quarter of 2015. Overall, the EBA supports the reconsideration or removal of EU exemptions, since (as highlighted by the CVA data collection exercise and shown in the figure below), they leave potential risks uncaptured in comparison with the Basel scope.

The EBA is of the opinion that any further work should be taken only after the review of the CVA framework is carried out as part of the Basel fundamental review of the trading book. This will include a re-calibration of the framework in a less conservative manner.

Figure 3: Distribution of number of counterparties subject to CVA risk charge per broad counterparty type



pean banks in Q2-Q3 2014. The data requested covered a large number of issues related to the CVA capital charge. European banks with sizeable over-the-counter (OTC) derivative portfolios and material capital requirements for CVA risks were invited to participate in the data collection exercise on a voluntary basis. In total, 32 banks from 11 jurisdictions participated.

In December 2014, the Basel Committee published its Regulatory Consistency Assessment Programme (RCAP) for the EU, whereby the prudential regulatory framework in the EU was evaluated to be 'materially non-compliant' with the minimum standards prescribed under the Basel framework. This overall grade can be attributed largely to the CVA framework, which was assessed to be 'non-compliant' i.e. the lowest grade in the four-grade scale used in RCAP assessments.

Enhancing the common supervisory reporting framework across the EU

In 2014, the EBA put specific emphasis on uniform reporting requirements to ensure data availability and comparability. This is important not only for the EBA, but also the European Systemic Risk Board (ESRB) and the SSM which rely on comparable data to perform their roles.

ITS on Supervisory reporting

The draft ITS on supervisory reporting reflect the Single Rulebook at the reporting level and so needs to be updated whenever the Single Rulebook is updated. The completion of these technical standards by the EBA, as well as answers to questions raised in the context of the Single Rulebook Q&A mechanism, have contributed to a more complete application of the Single Rulebook and more precise and enhanced reporting instructions and definitions.

A revised set of ITS on supervisory reporting were submitted to the Commission in July 2014 for adoption. Additionally, a new set of reporting requirements for supervisory benchmarking purposes were submitted to the Commission in 2014 for adoption in early 2015.

The ITS cover fully harmonised supervisory reporting requirements for solvency, large exposures, real estate losses, financial information, liquidity, leverage ratio and asset encumbrance and provide a comprehensive set of harmonised data of all EU institutions. The ITS also introduce a harmonised definition for non-performing and forborne exposures to facilitate a full comparison of the asset quality of EU banks. The information deriving from the reporting requirements will facilitate supervisors in their Pillar 1 monitoring and their assessments of Pillar 2 risks.

BOX 2 — Areas covered by the new harmonised reporting requirements ITS on Supervisory reporting

- a) Own funds requirements and financial information according to Article 99 of Regulation (EU) No 575/2013;
- b) Losses stemming from lending collateralised by immovable property according to Article 101(4)(a) of Regulation (EU) No 575/2013;
- c) Large exposures and other largest exposures according to Article 394(1) of Regulation (EU) No 575/2013;
- d) Leverage ratio according to Article 430 of Regulation (EU) No 575/2013;
- e) Liquidity coverage requirements and Net Stable Funding requirements according to Article 415 of Regulation (EU) No 575/2013;
- f) Asset encumbrance according to Article 100 of Regulation (EU) No 575/2013;
- g) Additional monitoring metrics according to Article 415(3)(b) of Regulation (EU) No 575/2013;
- h) Supervisory benchmarking of internal approaches according to Article 78(8) of Directive 2013/36/EU.

Reporting of the Liquidity coverage requirement

The liquidity coverage requirement aims at ensuring that credit institutions hold a sufficient amount of liquidity buffer to meet their net outflows in a 30 day stress scenario. An appropriate harmonised reporting framework is needed to ensure an effective supervision of the compliance with the liquidity coverage requirement and the EBA is working on an ITS which will serve this purpose.

Following Article 460 of the CRR, in October 2014 the Commission published a draft delegated act to specify in detail the liquidity coverage requirement for credit institutions as set out in Article 412(1).⁽⁶⁾ Following this delegated act the EBA started to work on amending the Commission Implementing Regulation (EU) No 680/2014 (ITS on supervisory reporting) with regard to the liquidity coverage requirement. In December, the EBA published a consultation paper where new liquidity coverage requirement reporting templates and instructions were suggested for credit institutions to replace, since the date of the application of the amending ITS, those currently in existence.

ONGOING ACTIVITY

The application of the liquidity coverage requirement delegated act in October 2015 will significantly impact the Single Rulebook and subsequently an adaptation of the liquidity coverage requirement reporting framework to the liquidity coverage requirement delegated act is necessary.

The EBA expects to publish the draft amending ITS regarding the liquidity coverage requirement reporting framework and submit it to the Commission in Q2 2015 for its final endorsement. The EBA suggests that the amended ITS would be applicable six months after its final publication in the Official Journal and not earlier than December 2015, the intention being to balance supervisory and technical implementation needs.

⁽⁶⁾ The Commission Delegated Regulation (EU) 2015/61 amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the liquidity coverage ratio was published on 17 January 2015 in the Official Journal of the European Union.

Reporting of the Leverage Ratio (LR)

The leverage ratio (LR) has been designed to prevent excessive build-ups in the exposure of institutions to their own funds (leverage). To this end, the LR compares the amount of own funds of an institution to the amount of unweighted on-balance sheet assets, with particular adjustments to take on board off-balance sheet items. Under the CRR/CRDIV this ratio has been taken into account in the Pillar 2 supervisory review from 2014 onwards. To ensure effective supervision, it is important to have an appropriate harmonised reporting framework in place. Whenever changes occur in the definition of the LR, the EBA works to reflect this in the reporting framework via its ITS. Pursuant to Article 456(1)(j) of the CRR, in October 2014 the Commission published a draft delegated act to specify in detail the LR. Since the delegated act significantly changed the definition of the LR,⁽⁷⁾ a revision of the LR reporting framework was deemed necessary. To this end, in 2014, the EBA started to work on amending the Commission Implement-

ONGOING ACTIVITY

The application of the LR delegated act will impact the Single Rulebook and subsequently an adaptation of the LR reporting framework to the LR delegated act is necessary.

The EBA expects to publish the final draft amending ITS regarding the LR reporting framework and submit it to the Commission by the end of April 2015 for its final endorsement. The EBA suggests the amending ITS would be applicable six months after its final publication in the Official Journal and not earlier than December 2015, the intention being to balance supervisory and technical implementation needs.

⁽⁷⁾ The Commission Delegated Regulation (EU) 2015/62 amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio was published on 17 January 2015 in the Official Journal of the European Union.

ing Regulation (EU) No 680/2014 (ITS on supervisory reporting) with regard to the LR. In December, the EBA published a consultation paper containing new LR reporting templates and instructions which will replace the existing framework.

After completion of uniform reporting on the LR and the Liquidity Coverage Ratio (LCR), the EBA started collecting data in the area of liquidity and leverage from Competent Authorities as of 31 March 2014.

Reporting on asset encumbrance

Within the regular reporting framework, the EBA will start collecting data on EU institutions' level of asset encumbrance from 2015 (first reference date on 31 December 2014). The reporting will provide a harmonised measure of asset encumbrance across institutions and will allow an assessment of institutions' reliance on secure funding as well as of the degree of structural subordination of unsecured creditors and depositors.

In addition, the EBA will continue building its IT infrastructure to support impact assessments and quantitative studies linked to its policy work.

Disclosure of the Leverage Ratio (LR)

In addition to supervisory reporting, Article 451(1) of the CRR requires institutions to disclose information on the LR.

In accordance with point (2)(a) of Article 521(1) of the CRR, disclosure will be applicable from 1 January 2015. To harmonise disclosure, Article 451(2) of the CRR contained a mandate for the EBA to develop draft ITS before the end of June 2014. In June 2014, the EBA published a final draft ITS containing a uniform template and instructions for the disclosure of the LR and its components. However, after the Commission's Delegated Act, which incorporated significant changes in the definition of the LR, a revision of the EBA proposals for a LR disclosure framework was deemed necessary, and so in 2014 the EBA started work on making the amendments to the earlier published final draft ITS.

ONGOING ACTIVITY

The EBA expects to publish the updated final draft ITS on disclosure of the LR and submit it to the Commission by the end of April 2015 for its final endorsement.

Counterparty risks, margin requirements and market infrastructure

Risk mitigation techniques for non-centrally cleared OTC derivative contracts

In order to address risks related to the OTC derivative markets, in 2012 the European Parliament and the Council adopted the EMIR with the objective of increasing the safety and transparency of the OTC derivatives markets. The EMIR, ⁽⁸⁾ which came into effect on 16 August 2012, requires OTC derivative contracts to be cleared, ⁽⁹⁾ derivative transactions to be reported to trade repositories and sets a framework to enhance the safety of central counterparties (CCP). It also requires that all the non-centrally cleared OTC derivative transactions become subject to risk mitigation techniques to reduce counterparty credit risk.

The three EU ESAs, the EBA, European Securities and Markets Authorities (ESMA) and European Insurance and Occupational Pensions Authority (EIOPA), have the mandate to develop RTS on two main topics:

- (i) risk-management procedures for the timely, accurate and appropriately segregated exchange of collateral and
- (ii) procedures concerning intragroup exemptions including the criteria for the identification of impediment to the prompt transfer of funds between counterparties.

⁽⁸⁾ Regulation EU No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (EMIR) as amended by Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential Requirements for credit institutions and investment firms (CRR) which is informally known as the European Market Infrastructure Regulation.

⁽⁹⁾ Joint Consultation on draft RTS on risk-mitigation techniques for OTC-derivative contracts not cleared by a CCP (JC/CP/2014/03).

The ESAs consulted on these RTS in mid-2014 and plan to release the final draft RTS in 2015.

These draft RTS lay down the methodologies for the determination of the appropriate level of margins, the criteria that define liquid high-quality collateral, collateral haircuts, concentration limits and intragroup transactions. To avoid regulatory arbitrage and to ensure a harmonised implementation these draft RTS have been drafted considering the framework for margin requirements for non-centrally cleared derivatives issued by the Basel Committee on Banking Supervision (BCBS) and the International Organisation of Securities Commissions (IOSCO) in September 2013.

Implementing the requirements for non-centrally cleared OTC derivatives

The framework covering the risk management procedures for non-centrally cleared OTC derivatives imposes new practices on market participants. In order to support a smooth implementation of the requirements, the EBA plans to actively engage with international standard setters and with industry stakeholders during the implementation phase. To this end, dedicated teams and periodic technical roundtables are set up to assess the industry readiness, the potential inconsistency among different jurisdictions and to obtain a better understanding of the operational issues that market participants might face.



Special treatment for clearing members' exposures to clients

In order to incentivise the use of CCPs, and in line with the international standards that amended the Basel II text, the CRR introduces a special treatment for clearing members' exposure to clients with respect to centrally cleared derivatives. In July 2014, the EBA published the final draft technical standards on the treatment of clearing member exposure to clients. ^[10]

The proposed methodology aims to capture the risk arising from centrally cleared derivatives' exposure to clients while limiting the operational burden on institutions. The technical standards incentivise CCPs to provide clearing members with the necessary information to properly manage risk. This methodology relies on information requested under CCP disclosure requirements established in EMIR. The technical standards incentivise CCPs to provide clearing members the necessary information to manage risk properly.

Market infrastructure

During 2014, the EBA worked on different topics related to market infrastructures in cooperation with ESMA) and members of European System of Central Banks (ESCB). Market infrastructures are outside the CRR/CRD framework but, given the systemic importance of a robust functioning of the markets, their regulatory framework has links with many other legal frameworks. The EBA is generally responsible for the aspects relating to capital and prudential requirements.

The EBA also started to develop RTS for Central Securities Depositories (CSDs) within the framework that was established by the Regulation on securities settlement and CSD Regulation (CSD-R). The CSD-R, which was published in August 2014, mandates ESMA and the EBA to collaborate in the development of numerous technical standards. The EBA is ultimately responsible for the development of standards covering the general capital requirements that will apply for all CSDs as well as some additional prudential requirements, covering intraday credit and liquidity risks, for those CSDs that offer banking-type ancillary services. These standards will be finalised in 2015.

^[10] Regulatory Technical Standards for the specification of margin periods of risk for the treatment of clearing members' exposures to clients.

Standards and guidelines to strengthen supervisory convergence

Promoting supervisory convergence is an essential part of the EBA's mandate and during 2014 the EBA developed a number of standards and guidelines to achieve convergence in supervisory methodologies and college functioning. The Single Rulebook addressing supervisory convergence focused on establishing a common framework for the Supervisory Review and Evaluation process (SREP) across the EU and a common approach to assessing funding plans across the EU. A new set of technical standards laid the foundations for the functioning of colleges necessary for cross border supervision, and for reaching a joint decision for approving internal models used by institutions across Member States. These products represent major progress in establishing consistent supervisory practices across the single market and in strengthening the basis and functioning of cross border supervision in colleges.

The common SREP framework is built around the assessment of four major building blocks leading to the overall SREP assessment, which represents the up-to-date supervisory view of an institution's risks and viability (see Figure 4).

The overall SREP assessment serves as a basis for the decision on the application of supervisory measures, including additional capital and/or liquidity requirements, and may also lead to the decision on the application of early intervention measures. If the outcomes of the SREP assessment suggest there is a direct threat to the viability of an institution, the supervisor should then consider whether conditions for the resolution are met and whether resolution proceedings should be initiated following the procedures and requirements stipulated in the BRRD.

What do the new guidelines cover?

The new guidelines comprehensively cover all aspects of SREP and provide a common and consistent process. This means all EU banks will undergo an evaluation of their business model and an assessment of their risks to capital e.g. interest rate risk in the banking book. The guidelines also provide clarity on the scoring methodology, set the framework for how to determine and articulate additional capital and liquidity requirements, and explain the role of stress testing and CRD capital buffers. Finally, they allow for the frequency and intensity of the assessment to depend on the size, complexity and systemic impact of an institution, determined by a category to which it is assigned.

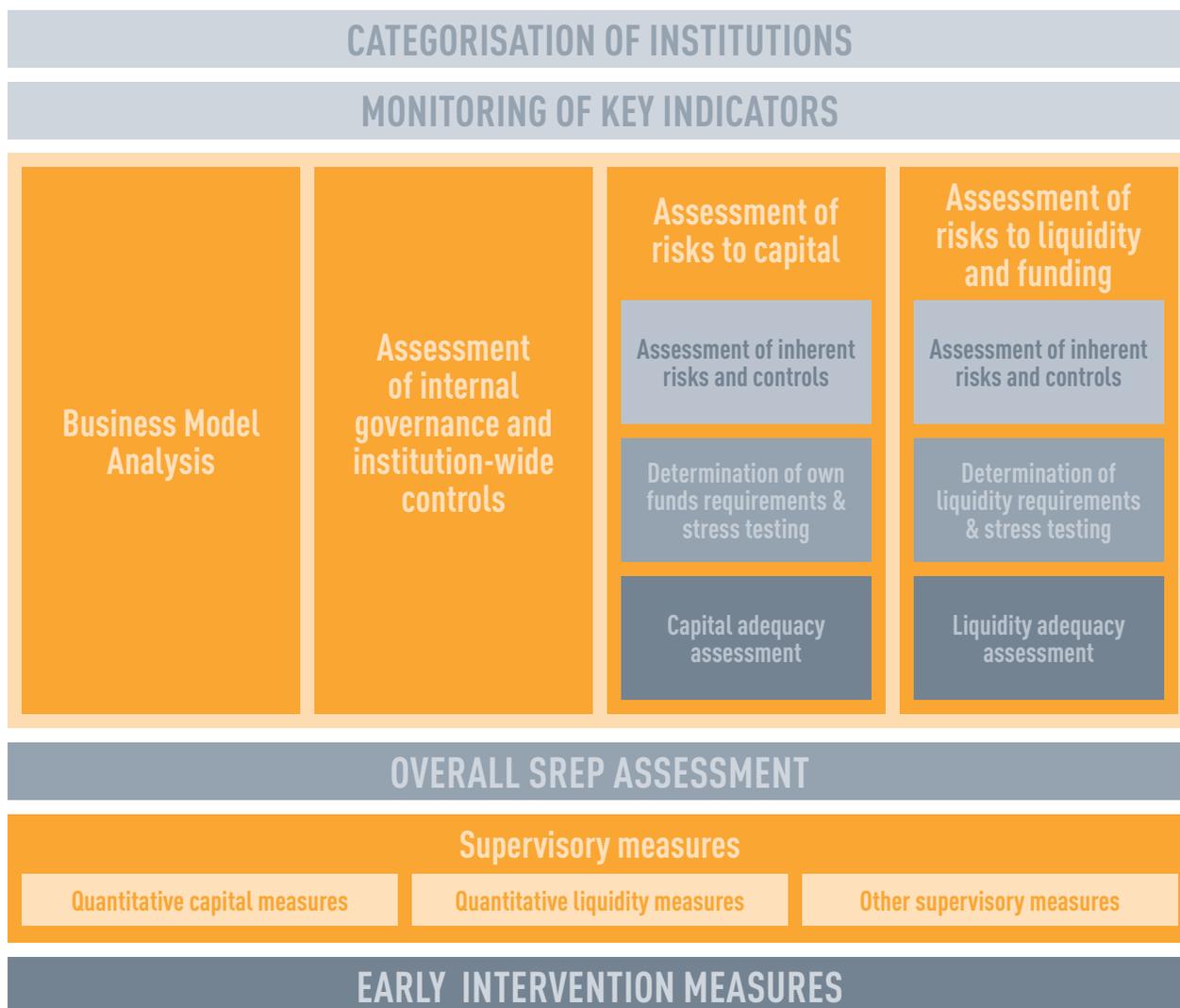
BOX 3 — The new SREP framework

The SREP framework allows supervisors within the EU to assess risk profiles of institutions, their risk management, control and governance arrangements, business models, capital and liquidity adequacies; in sum the overall viability of an institution. The outcomes of this assessment can lead to the application of supervisory measures or early intervention measures to address any shortcomings.

The guidelines on common procedures and methodologies for SREP developed by the EBA in 2014 introduce a common SREP framework to be implemented across the EU by 2016 and aim to increase consistency of supervisory practices and outcomes across the EU. They also provide a solid foundation for the work of supervisory colleges in their annual joint risk assessments and in reaching the joint decision on institution-specific prudential requirements.

Until now, the EBA observed inconsistencies in how supervisors across various Member States undertook their reviews and applied supervisory measures. This has led to a dispersion of supervisory conclusions on risks and different outcomes when identifying which measures (additional capital requirements or otherwise, as listed in Articles 104 and 105 should be used to remediate the outcomes of the SREP).

Figure 4: Overview of the common SREP framework



Guidelines on reporting of funding plans

The Guidelines on reporting of funding plans were published in mid-2014 and include harmonised templates and instructions for data submissions from banks to competent authorities. This harmonisation provides a common language for funding plans for discussion in colleges and, most importantly, it will allow for an assessment of the feasibility, consistency and coherence of funding plans at the national and Union level.

Further details on standards contributing to harmonised cross-border supervision can be found under the section on supervisory reporting.

Final draft RTS and ITS on the functioning of supervisory colleges

These technical standards which apply to both colleges established for institutions with significant branches in other Member States and colleges established for cross-border banking groups (i.e. with subsidiaries and/or significant branches in multiple Member States). With the finalisation of these technical standards the new legal framework for the functioning of supervisory colleges under the CRD has now been completed. Once adopted and published in the Official Journal, the CEBS guidelines on the operational functioning of colleges (GL 34) will be repealed, given that the technical standards provide detailed and complete framework for college cooperation in day-to-day supervision and emergency situations.

Final draft ITS on joint decisions on prudential requirements (internal models)

These technical standards enable the consolidating supervisor and the relevant competent authorities to cooperate and to reach joint decisions on the approval of internal models in a timely and efficient manner when deciding whether to grant permission to use internal models for credit, counterparty, operational and market risk for the calculation of own funds requirements. They specify the joint decision process and cover aspects of home-host cooperation e.g. assessment of completeness of the application, preparing the joint decision timeline, and drafting the joint decision document.

Contributing to the EU framework on bank recovery, resolution and deposit guarantee schemes

In 2014 the EBA focused on the recovery and resolution regulation. This was in line with the additional mandates and tasks given to the EBA by the adoption of the BRRD and regulation establishing the SRM establishing the second pillar of the Banking Union. As a result the EBA had to develop a number of regulatory products under each recovery and resolution stage (Figure 5). The EBA's objectives in this respect are to conclude the Single Rulebook and to ensure greater harmonization of rules across the Single Market. For implementation of the BRRD, a number of new regulatory products have to be prepared by mid-2015. The EBA is working on around 40 EBA guidelines, RTS, ITS and providing advice to Commission regarding delegated acts. The principle of proportionality was central when preparing regulatory products on this topic, as this principle recognizes the importance of the diversity of the EU banking system and explicitly refers to the need to develop and apply rules in such a way that this diversity is acknowledged and preserved.

In 2014, the EBA finalised regulatory products relating to recovery planning and resolution planning, therefore, the Single Resolution Board (SRB) and national resolution authorities were able to start their activities from 1 January 2015 in a more harmonised environment within the Single Market and with the most important regulatory products already in place. Moreover, these harmonised rules will ensure greater cooperation and coordination between competent and resolution authorities and will help them to overcome obstacles to the application of resolution actions on a cross-border basis, also with regard to third countries.

Simplified obligations in relation to recovery and resolution planning

In order to secure proportionality when determining the nature of the obligations under the BRRD in relation to recovery and resolution planning and resolvability assessments for institutions, competent and resolution authorities should take into consideration the impact the failure and subsequent winding up of an institution under normal insolvency proceedings could have on financial markets and other financial bodies. For this purpose, the BRRD details a series of criteria against which institutions should be assessed.

To complement the BRRD criteria, the EBA has prepared guidelines further specifying how EU authorities should assess whether an institution is eligible for simplified obligations in order to promote convergence of practices between competent and resolution authorities through a common framework, in line with the principle of proportionality.

The guidelines are complemented by the EBA's ITS to specify uniform formats, templates and definitions for the identification and transmission of information to the EBA on how authorities have applied simplified obligations. The

Figure 5: Recovery and resolution stages



EBA will use this information to assess how the principle of proportionality has been applied by competent and resolution authorities for the purposes of informing the EBA's report to the European Parliament, the Council and the Commission on any divergences of approach between authorities in terms of the assessment of institutions against the criteria (taking account of the EBA's guidelines) and the nature of the simplified obligations imposed in each case. The report must be submitted by 31 December 2017.

Recovery planning

Regulatory products relating to recovery planning were one of the main priorities during 2014. These products are essential for national competent authorities, the SSM and especially market participants in order to prepare sound recovery plans. They should ensure a common approach across the EU regarding the assessment of recovery plans and so to facilitate joint assessments of group recovery plans by different competent authorities.

In 2014 the EBA:

- (i) finalised RTS on the content of recovery plans which provides details on the key parts and information that must be included in recovery plans to be drafted by financial institutions;
- (ii) finalised RTS on the criteria which competent authorities should apply when assessing the recovery plan of an institution or a group developed by financial institutions;
- (iii) produced guidelines on the range of scenarios to be used in recovery plans;
- (iv) published a consultation paper on draft guidelines on recovery plans indicators which identify the minimum qualitative and quantitative indicators that institutions should include in their recovery plans.

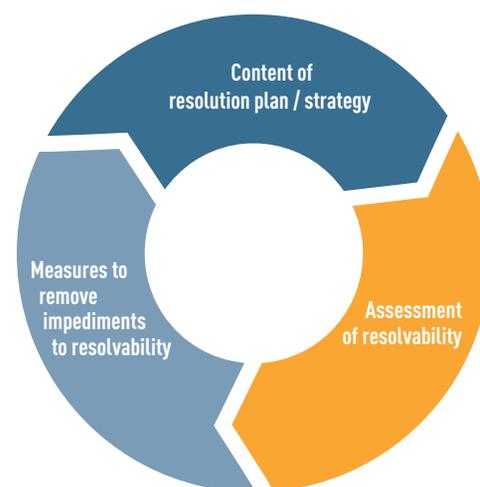
The EBA also finished the public consultation on the RTS and guidelines specifying the conditions for group financial support and on the ITS on the form and content of disclosure of financial support agreements. The proposed RTS and guidelines establish a clear harmonised legal framework to facilitate support within banking groups, if one of its members is in financial distress, and to enhance legal certainty by overcoming existing legal obstacles.

In particular, the guidelines specify the criteria for authorising a temporary non-compliance with prudential requirements of the providing entity. In the ITS, the EBA ensures a high standard of transparency with regard to support agreements so that creditors of the group are in a position to make informed investment decisions and assess the consequences of the agreement on individual subsidiaries and the group as a whole.

Resolution planning

Resolution planning was a second pillar of the EBA's work during 2014. The EBA finished RTS' on resolution planning and resolvability assessment, which describe content and the categories of information which should be included in a resolution plan, and the issues which need to be considered when assessing resolvability. This assessment is a linchpin of the BRRD, and the common framework provided by the RTS will ensure that resolution authorities across the EU all consider how resolvability is affected by, for example, the availability of financial resources (including minimum requirement for own funds and eligible liabilities (MREL)) or of information in a similar way. Proportionality is ensured both by the simpler plans required for less complex banks and the possibility to apply simplified resolution planning obligations to certain institutions which meet the criteria specified in the aforementioned EBA guidelines. Other Guidelines issued alongside the RTS further specifies the circumstances under which resolution authorities can require measures to overcome obstacles to resolvability that might have been

Figure 6: Resolution planning



identified in the assessment and also specify the measures that can be taken to reduce or remove these impediments.

The EBA also published draft RTS for consultation on the operational functioning of resolution colleges which provide a forum for resolution authorities of cross border banking groups to reach the necessary joint decisions on both resolution planning and resolution. These RTS draw on the broad experience of supervisors in colleges, which is applied to the process of resolution colleges. These RTS also detail the involvement of supervisory colleges in the framework of resolution colleges to ensure consistency and cooperation between the two forums.

Early intervention measures

The new BRRD regulatory framework introduced a common set of early intervention measures that complement existing supervisory powers and measures, established under the CRD and applied according to the EBA guidelines for common procedures and methodologies for the SREP. In 2014, the EBA launched a public consultation on the draft guidelines on triggers for early intervention which are addressed to competent authorities and clarify the conditions for using measures foreseen by the BRRD. The triggers are, to a large extent, based on the outcomes of the SREP, expressed both in terms of overall SREP score and scores for individual SREP elements. The guidelines complement the previous EBA guidelines for common procedures and methodologies for SREP.

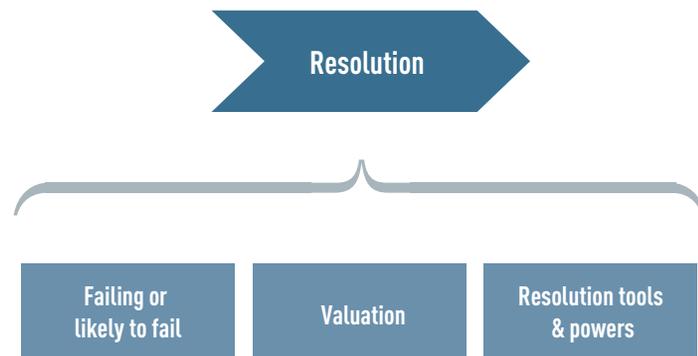
Resolution

The resolution process includes various phases including an assessment as to whether the institution is failing or likely to fail, valuation, application of resolution tools and resolution powers where the EBA has already finalised or is in the process of developing a number of regulatory products (Figure 7).

Failing or likely to fail

Determining whether an institution is failing or likely to fail is the first step in any resolution process. The guidelines on the circumstances under which an institution is to be considered as 'failing or likely to fail' (triggers for resolu-

Figure 7: Resolution sub stages



tion) ensure continuum between the ongoing supervision conducted by national authorities in line with the CRD, and the BRRD. They aim at promoting convergence of supervisory and resolution practices in relation to how resolution should be triggered. These guidelines complement the EBA guidelines on early intervention triggers and guidelines for common procedures and methodologies for SREP. These three guidelines form a set of supervisory guidance linking on-going supervision, early intervention and resolution.

In the event of an institution being determined as failing or likely to fail, as defined under the BRRD, a notification process must be followed to ensure the necessary next steps are undertaken with regards to the institution's resolution. In this context, the EBA has developed draft RTS on notification requirements specifying the procedures and contents of such notifications. These draft RTS also address the requirement on resolution authorities to publish a notice summarising the effects of any resolution action and in particular the effects on retail customers.

Valuation

The BRRD provides a comprehensive framework of powers for resolution authorities to intervene in failing banks. To ensure authorities exercise these powers in ways which reduce the risk of costs falling on the taxpayer, preserve value where possible, and respect the property rights of affected shareholders and creditors, the BRRD requires independent valuations to be carried out to inform the authorities' decisions. These valuations are required for several distinct purposes, either prior to or after the resolution.

The EBA developed RTS on valuation aimed at providing a common structure to decisions made by resolution authorities and independent valuers. These RTS do not seek to provide detailed valuation rules for particular types of asset or liability, but to specify the principles on the basis of which the valuer must apply their own information and expertise in particular cases. Consultation on these standards will close in early 2015 and they are expected to be completed late 2015. The EBA finalised the public consultation on RTS on independent valuers in 2014, setting forth general criteria to be used in order to determine, on a case-by-case basis, whether a valuer complies with the legal requirement of independence.

In parallel, the EBA has started work on the RTS on the valuation of liabilities arising from derivatives. This RTS will provide resolution authorities with methodologies and principles to determine the value of derivatives specifically when applying the write down and conversion powers laid down in the BRRD. These draft RTS will be published for consultation in the spring of 2015 and is scheduled for adoption before the end of the year.

Resolution tools

Bail-in

The BRRD requires Member States to ensure their resolution authorities have available powers to write-down and convert relevant liabilities of an institution at the point of non-viability and in the course of an application of the resolution tools. In 2014, the EBA consulted on several regulatory products intended to ensure the effective and consistent application of these powers.

The EBA closed the public consultation on the RTS further determining the cases in which agreements governed by the law of a third country should include contractual term by which the creditor or party to the agreement recognises a liability under the agreement may be subject to write-down and conversion powers and agrees to be bound by the effect of the application of those powers. These draft RTS also specify the contents of the contractual term required to be included. In addition, the EBA published draft guidelines on the interrelationship between the sequence

in which liabilities should be written down or converted when the bail-in power, introduced by the BRRD is used, and the hierarchy of capital instruments in the CRR, on the rate of conversion of debt to equity in bail-in, and on the treatment of shareholders in bail-in. Taken together, these guidelines seek to clarify how the terms on which a bail-in is conducted should relate to valuation information, the creditor hierarchy in insolvency, and the classification of capital instruments.

In the second half of 2014, the EBA started work on the preparation of RTS regarding the content of the business reorganisation plans (which has to be drawn up if the bail-in tool is applied) and the relevant progress reports, as well as guidelines on the assessment of the plans by the resolution and competent authorities.

Sale of business tool and asset separation tool

Guidelines on the sale of business tool specify when authorities may deviate from certain marketing requirements for the sale of the business of an institution under resolution. Guidelines on the asset separation tool give guidance on assets that may be transferred under this tool. Both guidelines relate to the implementation of resolution tools against constraints stemming from the EU competition and transparency rules in relation to state aids. They aim at balancing these constraints with the objective of an efficient resolution regime.

Minimum requirement for own funds and eligible liabilities (MREL)

To avoid institutions structuring their liabilities in a way that hampers the effectiveness of bail-in or other resolution tools, the BRRD requires institutions to meet a robust minimum requirement for own funds and eligible liabilities (MREL). This is not a fixed figure imposed by legislation, but is to be set on a case-by-case basis by resolution authorities. To ensure consistency, the BRRD lays down common criteria for resolution authorities to apply and these technical standards further specify these minimum criteria. MREL also relates to the total loss absorbing capacity (TLAC) which is being developed at global level for Global Systemically Important Financial Institutions (G-SIFIs) by the FSB.

The EBA issued a public consultation on technical standards regarding MREL which aim to specify the criteria set out in the BRRD. The draft RTS clarify how the institution's capital requirements should be linked to the amount of MREL needed to absorb losses and, where necessary, recapitalise a firm after resolution. Finally, the draft RTS propose that for systemic institutions, resolution authorities should consider the potential need to be able to access the resolution financing arrangement if a resolution relying solely on the institution's own resources is not possible.

Resolution powers

Power to temporarily suspend the termination right

In the second half of 2014, the EBA began drafting the RTS specifying a minimum amount of information on financial contracts that should be contained in the detailed records and the circumstances in which the requirement to maintain detailed financial records should be imposed on institutions and relevant entities. This information would facilitate successful application of the power to temporarily suspend termination rights as well as other resolution powers and tools.

Necessary services

Guidelines on the minimum list of services of facilities that are necessary to enable a recipient to operate a business transferred to it, aim to foster convergent practices among Member States' resolution authorities by giving comprehensive guidance on which circumstances resolution authorities should assess when taking their decisions. They define, in particular, a minimum list of necessary 'critical' services that may be required from the institution under resolution.



ONGOING ACTIVITY

The EBA will continue its contribution to the Single Rulebook for bank recovery and resolution with the finalisation of a number of regulatory products. The EBA will submit draft technical standards to the Commission for approval in 2015 in accordance with the deadlines outlined in the BRRD.

It will ensure smooth and consistent implementation of the BRRD, as common criteria and effective cooperation in this area will be essential during 2015 in order to revert the fragmentation of the Single Market, ensure a greater balance between participating and non-participating Member States in the Banking Union and to allow the SRM to work on the basis of consistent rules in all the jurisdictions it covers.

Work on Deposit Guarantee Schemes (DGS)

The EBA anticipated the challenge of implementing the new DGSD, in order to support its transposition due in all Member States by 3 July 2015. The EBA objectives in this field are to foster robust depositor protection and ensure resilient financing arrangements and a level playing field across the internal market. A test exercise on systems for calculating risk-based contributions to DGS was run with all Member States, which fed into draft guidelines on the matter published in November 2014. Draft guidelines on payment commitments were released in September 2014.

Work on securitisation and covered bonds

Contributing to a simple, standard and transparent securitisation market across the EU

During 2014, the EBA significantly contributed to global and EU policy-making in the area of securitisation, with the publication of an opinion, a discussion paper and guidelines on securitisation. The focus of these regulatory developments has been to foster a well-functioning and prudent securitisation market.

The development of a sound and prudent securitisation market constitutes a building block for the Capital Markets Union (CMU) and will promote further integration of EU financial markets, help diversify funding sources to banks and unlock capital; making it easier for banks to lend to households and businesses and enhance risk-sharing.

In its discussion paper, the EBA acknowledged that a one-size-fits-all regulatory approach to securitisation was no longer appropriate. Through industry and public consultation, the EBA invited stakeholders to provide input and views.

The guidelines on significant risk transfer for securitisation transactions provide a transparent framework, both to national supervisory authorities and institutions, ensuring a more consistent approach across the EU. These guidelines are particularly relevant in the context of the deleveraging and de-risking processes in which EU banks are currently engaged in.

Following a comprehensive analysis, the EBA published an opinion on the appropriateness of the risk retention, due diligence and disclosure requirements and its multiple components, namely, the type of retainer (originator, original lender or sponsor), the forms of retention used, the level of net economic interest retained, and the assessment of the consolidated situation of the retainer. It recommended some additional safeguards and provisions to support the current framework and to ensure industry participants do not abuse the rules currently in place.

Report on EU covered bond frameworks

The success of covered bonds as funding instruments is closely linked with the development of specific national legal frameworks mostly anchored to the simple references established in the Undertakings for the collective investment in transferable securities (UCITS) Directive as a European basis. In July 2014, the EBA published a detailed report on the European covered bonds frameworks, identifying a series of best practices ensuring a robust and consistent regulatory framework for covered bonds.

The report also provided a positive opinion on the preferential capital treatment of covered bonds, but called for further clarifications on current disclosure requirements and provided advice on the preferential treatment of some specific cover assets.

ONGOING ACTIVITY

In 2015, the EBA will provide technical advice to the Commission on the creation of a sound and safe securitisation product. The discussion paper published in October 2014 already provides the EBA's preliminary views based on three pillars of simplicity, standardisation and transparency. These, together with criteria on the credit quality of the securitised assets, should shape a new class of securitisation products that are prudentially sound and receive specific regulatory recognition.

In particular, the advice will focus on defining the criteria to identify simple, standard and transparent securitisations and on appropriate capital requirements for these types of securitisations. The final technical advice to the Commission is expected to be delivered in June 2015.

Furthermore, in 2015 the EBA will begin reviewing Member States' implementation of the guidelines on significant risk transfer published in July 2014. This will enable the EBA to assess and compare how competent authorities have implemented these guidelines and to provide advice to the Commission by 31 December 2017 on whether a binding technical standard (BTS) in this area is required.

Contributing to a sounder remuneration framework

The legislative changes introduced by the CRD to strengthen remuneration practices in institutions across the EU became effective on 1 January 2014. The EBA developed a set of draft RTS defining appropriate qualitative and quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile, which also came into force in 2014. This was followed by RTS on classes of instruments appropriate to be used for variable remuneration, which were submitted to the EC in February 2014. Guidelines on the applicable notional discount rate for variable remuneration were delivered in March 2014.

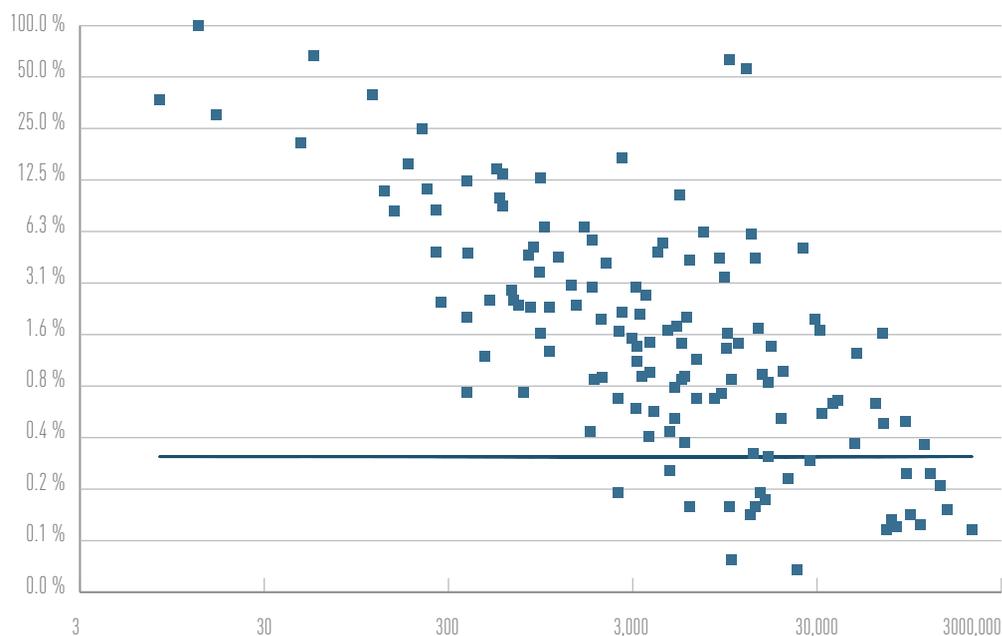
Report on identified staff

The RTS on identified staff is of critical importance for the correct application of the CRD remuneration provisions as it defines criteria to identify staff categories to which the CRD requirements on variable remuneration, including the bonus cap, the deferral of variable remuneration and its pay-out in instruments have to be applied. The remuneration policy for identified staff should align its variable remuneration with the risk profile of the institution in the long-term. This will ultimately

contribute to supporting financial stability across the EU, as inappropriate incentives for management and employees — for instance, with disproportionate rewards on the upside and insufficient penalties on the downside — have often led to short-term oriented and excessively risky strategies and decisions. The application of a harmonised set of criteria by institutions will also lead to a more uniform identification outcome and contribute to a level playing field between banks. Figures published in the EBA's remuneration benchmarking report show that so far the identification outcomes between similar institutions differed significantly. For the bonus year 2014 and in the future, the EBA expects the remuneration provisions will be applied to a higher and more consistent number of identified staff.

Furthermore, the RTS on identified staff include a combination of qualitative and quantitative criteria which have to be applied by all institutions subject to the CRD, including to subsidiaries that are not themselves subject to the CRD. The qualitative criteria are related to the role and decision-making power of staff members (e.g. staff is a member of a management body, is a senior manager, has the authority to commit significantly to credit risk exposures, etc.) and the quantitative criteria are related to the level of total gross remuneration in absolute or in relative terms. Under specific

Figure 8: Ratio of identified staff compared to the number of staff within institutions in 2013



conditions is it possible to exclude staff identified only under the quantitative criteria from the scope of identified staff. Institutions are required to perform a risk based assessment before such exclusions are made and notified to the competent authority, who may request additional analysis. For staff earning more than one million euros such exclusions are only possible in exceptional cases; the EBA will ensure the consistent application of the respective provisions.

In 2013, the identification of staff did not yet follow the criteria defined in the RTS on identified staff, also the criterion that at least 0.3 % (as indicated in the graph below) of the staff with the highest remuneration should be identified was not yet in place.

The data for 2013 reveals the numbers of identified staff differs significantly between institutions of different size and in many cases between institutions of similar size and business activities. The identification outcomes are expected to change subsequent to the adoption of the RTS on identified staff, with higher and more harmonised numbers of staff being identified. However, this data will only be available in the second half of 2015.

Standards on instruments

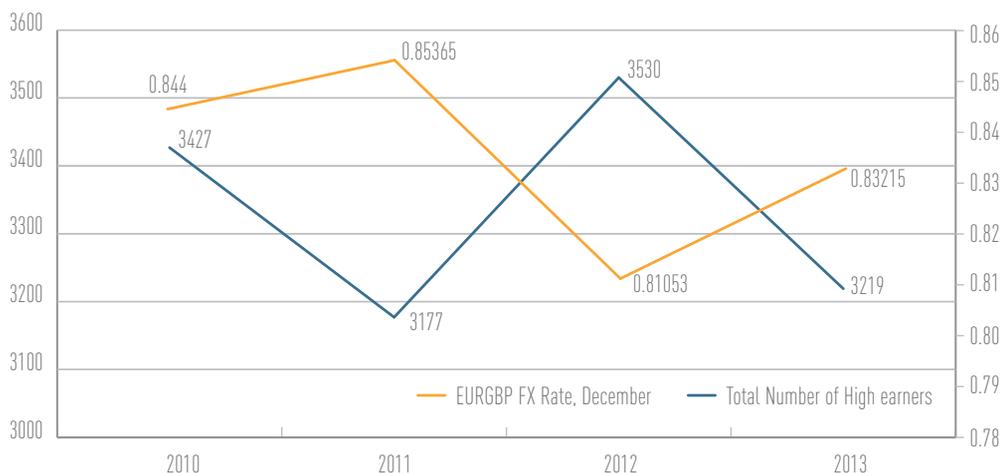
The RTS on instruments broadly define the instruments that institutions must use, where possible, in parallel to shares, share-linked instruments or equivalent instruments. To ensure a write down or conversion at going concern conditions, the RTS introduces for all

instruments a uniform trigger event of 7 % of the Common Equity Tier 1 (CET1) capital and defines the respective mechanisms. According to the EBA benchmarking results banks have so far mainly used shares or share-linked or equivalent instruments for the pay out of variable remuneration in instruments. Only in single cases institutions have made limited use of the possibility to use hybrid instruments. However, from 2014 onwards institutions should use a balance of the different classes of instruments, where possible.

Remuneration benchmarking and high earners report

Each year the EBA collects data on staff that have received remuneration of one million euros or more in the previous financial year and, in addition, detailed information in particular on the remuneration of identified staff from more than a hundred institutions. The EBA publishes the aggregated data and a benchmarking analysis. Both data collections aim at ensuring a high level of transparency regarding the remuneration practices within the Union. The report published in 2014 analysed the remuneration developments between 2010 and 2012. Overall, the remuneration paid to identified staff increased over time. The data revealed a trend to increase in particular the fixed remuneration component. However, further changes to institutions' remuneration policies were needed in light of the newly introduced bonus cap and some institutions have introduced so called 'role-based allowances' to increase the supposedly fixed component of remuneration. Following changes in

Figure 9: Number of high earners over time



the relevant disclosure requirements and experience gathered through previous data collections the EBA has updated both guidelines in July 2014 and therefore achieved a collection of more granular benchmarking and high earner data for the financial year 2013. The resulting benchmarking report will be published in 2015.

The number of high earners has remained relatively stable over time, still most high earners are located in the UK. The volatility of the EUR/GBP exchange rate led to fluctuations in the number of high earners in the UK. Changes in the figures between the different periods are also a result of changes in the profitability of banks which had an impact on the variable remuneration awarded and a change of remuneration policies with increasing amounts of fixed remuneration and lower variable remuneration. The EBA will publish a more thorough analysis of the data during 2015.

Opinion on allowances

The EBA analysed the use of role-based allowances in all Member States and issued an Opinion in October 2014 to the institutions and competent authorities regarding the categorisation of remuneration components. The mapping of the different remuneration components is a key part of the calculation of the ratio between the variable and fixed remuneration component and the compliance to the so called bonus cap.

According to the EBA investigation, competent authorities across the 28 EU Member States have reported that 39 institutions used 'role-based' or similar allowances, which the institutions classify as fixed remuneration. However, most of such allowances were discretionary or even revocable payments which were not pre-determined and consequently not transparent to staff. Therefore most of the observed allowances would need to be classified as variable remuneration. Competent authorities were asked to ensure compliance with the EBA's Opinion by 31 December 2014.

ONGOING ACTIVITY

In 2015, the EBA will continue working on its mandates related to remuneration policies and practices in the EU financial sector. This work will support the establishment of high-quality standards and practices for a harmonised and coherent supervisory approach, contributing to a level playing field for all institutions across the EU, particularly through the development of guidelines. In this respect, the EBA will launch a three-month public consultation on its Guidelines on sound remuneration policies in early 2015. These set out the governance process for implementing sound remuneration policies across the EU considering the reinforcement of the oversight function within CRD IV and the specific criteria for mapping all remuneration components into either fixed or variable pay. They define which institutions are significant and

therefore need to have a remuneration committee. Further details are provided on the application of the requirements in a group context.

In addition, the guidelines on remuneration policies take into account the EBA Opinion on allowances from October 2014, so as to ensure compliance with the bonus cap introduced by the CRD. The document clarifies the identification process regarding the categories of staff whose professional activities have a material impact on the institutions' risk profile, while the identification criteria to be used as part of this process are already defined within the RTS on identified staff. In particular, the guidelines specify the notification and approval processes for the exclusion of staff identified only under the quantitative criteria.

Specific guidance is provided on how the ratio between the variable and the fixed components of remuneration should be calculated, taking into account specific remuneration elements, such as sign-on bonus, retention bonus and severance pay. Guidance is also provided on the application of deferral arrangements and the pay-out instruments ensuring that variable remuneration is aligned with an institution's long-term risks and that any ex-post risk adjustments can be applied as appropriate. The guidelines specify in which situations it is possible to pay out variable remuneration as a balance of different kinds of instruments.

On the application of proportionality to the general remuneration principles, these draft guidelines follow the legal reading of the CRD, confirmed by the Commission, that the requirements on deferral and payment in instruments have to be applied to all institutions regardless of their size, complexity or legal form. On this point, the EBA's view is that such provisions should be 'neutralised' for certain institutions that do not rely extensively on variable remuneration when specific criteria are met. The EBA, therefore, will analyse the responses received during the public consultation regarding

the impact and costs triggered by the application of all requirements to all institutions and intends to send its advice on possible legislative adjustments to the EC.

The EBA guidelines will apply to competent authorities across the EU, as well as to institutions on a solo and consolidated basis, including all subsidiaries which are not subject to the CRD IV framework.

After the consultation, the guidelines should be finalised, taking into account the responses received. The envisaged timeline would allow for competent authorities across the EU and institutions to implement the guidelines by the end of 2015, so that they are applied for the performance year 2016 and onwards. Once the new guidelines are adopted, the previous guidelines on remuneration policies and practices from 2010 will be repealed.

On high earners, the EBA will publish a more thorough analysis of the data during 2015. In addition, the EBA will perform a review on the steps taken by competent authorities and institutions to ensure compliance with the EBA's Opinion on allowances and consequently also with the bonus cap.

Progress in the area of own funds

Regarding the area of regulatory own funds, 2014 was a transition year with a gradual shift from the drafting of RTS to monitoring activities and implementation issues. The EBA completed all its CRR mandates for RTS' on own funds with the publication of the fourth and final part of those RTS in March. Since the finalisation of this work and the adoption as EU delegated Regulation (Commission Delegated Regulation (EU) No 241/2014) of most of the delivered standards on own funds, the EBA has been putting more emphasis on the review of the implementation of the eligibility criteria applicable to capital instruments on the basis of the CRR and the technical standards.

Completion of RTS

In March 2014, the EBA published its final draft RTS on own funds — Part IV. This was the last package of technical standards on own funds, previous parts had been delivered in 2013.

Part IV of the RTS aimed to set harmonised criteria for instruments with multiple distributions that would create a disproportionate drag on capital, as well as clarifying the meaning of preferential distributions.

In this particular area of own funds, the EBA's mandate is twofold: one is related to multiple distributions and the other one to preferential distributions, which have been considered separately for joint-stock companies and non-joint stock companies. In particular, the provisions of these final draft RTS detail whether and when multiple distributions would create a disproportionate drag on capital and clarify the meaning of preferential distributions — namely preferential rights to payments of distributions and order of payments of distribution. Furthermore, these RTS deal with the consequences of not meeting the criteria provided for in the regulation in terms of (dis) qualification of instruments as CET1 capital.

Monitoring the quality of capital

The EBA started monitoring the quality of own funds instruments issued by institutions across the EU and pursuant to Article 80 of the CRR, the 'EBA shall monitor the quality of own funds instruments issued by institutions across the Union'.

ONGOING ACTIVITY

In accordance with the EBA's mandate to review and monitor the quality of own funds instruments issued by institutions across the Union (Article 80 of the CRR) the EBA will carry on with its monitoring work on own funds instruments throughout 2015.

On May 2014, the EBA published a list of capital instruments across the EU that national supervisory authorities have classified as CET1. This list, which was compiled in accordance with Article 26 of the CRR is based on the information received from the 28 national competent authorities across the EU and includes all the CET1 instruments issued by institutions and evaluated as compliant by the national supervisory authorities. This list gives an exhaustive overview of the CET1 capital instruments available in EU Member States, on the basis of the information received as of 28 June 2013.

The EBA aims at updating this list on a continuous basis in order to monitor the quality of new instruments issued by institutions across and to assess their compliance with the eligibility criteria laid down in the CRR. In the first update to the list, which was published in December 2014, three CET1 new instruments have been added after having been assessed and evaluated as compliant with the CRR, while two instruments have been deleted.

The information provided in the list is consistent with the information to be reported according to the ITS on disclosure for own funds.

1. The EBA published a report presenting the first results of the review on the issuances of Additional Tier 1 (AT1) capital instruments in October 2014. The CRR lays down eligibility criteria for AT1 instruments (in particular Articles 51 to 55) and those criteria are supplemented by the Commission Delegated Regulation (EU) No 241/2014 (RTS on own funds). Several AT1 instruments have now been issued by European institutions in accordance. This review is a pilot and the EBA expects to gather further insight on the basis of

future issuances. The EBA has reviewed nine issuances, issued between August 2013 and May 2014, for a total amount of EUR 11.6 billion. Three issuances were made under a conversion mechanism, and six under a temporary write-down mechanism.

2. Although they are complex instruments, issuances are in general quite standardised, except for features which are by nature institutions' specific (such as, for example, the level of the triggers and the definition of the triggers at different applicable levels depending on the structure of the group). The monitoring process has shown that a few provisions of existing AT1 instruments or some currently under consideration by prospective issuers should be avoided in the future, or revised wordings of those clauses should be used to avoid uncertainty in relation to regulatory provisions or the high complexity of the instruments. This may particularly be the case for the loss absorption mechanism, regulatory calls, share conversion mechanisms, contingent clauses and covenants.

The EBA's technical advice to the European Commission on delegated legislation

In 2014, the EBA was requested by the Commission to provide technical advice to the Commission on delegated legislation stemming from the CRR and CRD and also from the BRRD. The Commission sought technical advice so that it can report back to the Parliament and the Council on specific topics and propose changes where necessary.

ONGOING ACTIVITY

In 2015, the EBA is also expected to deliver an advice on the appropriateness of eligible capital applied for the purposes of Title III Part Two and Part Four.

Under CRD

The EBA advised on delegated acts relating to the following regulatory topics: own funds, remuneration, credit risk, prudential filter for fair value gains and use of waivers under Pillar 1 and Pillar 2.

Regarding securitisation, the EBA provided an opinion on the appropriateness of the risk retention, due diligence and disclosure requirements and its multiple components, such as the type of retainer, the forms of retention or the level of net economic interest retained. The EBA also published a detailed report on the European covered bonds frameworks, identifying a series of best practices ensuring a robust and consistent regulatory framework for covered bonds. The report provided a positive opinion on the preferential capital treatment of covered bonds.

In addition, the EBA published an opinion on the macroprudential tools laid down in the CRR/CRDIV. This opinion informs the Commission on whether these macroprudential rules are effective, efficient and transparent as well as the possible degrees of overlap across different macroprudential tools and the consistency of the EU framework with global standards. The Opinion also included policy recommendations addressed to the Commission to consider in its review of the macroprudential toolkit when the Commission reports to the European Parliament and the Council.

The EBA published an opinion on whether the use of waivers in the area of Pillar 1 and Pillar 2 are consistently applied, whether the waivers are prudentially justified and whether clarifications or legislative changes are needed. The EBA liaised with competent authorities to provide an opinion and the conclusions of this report were submitted to the EC who used the EBA opinion as input into discussions of their Expert Group on Banking, Payment and Insurance on this topic.

In March 2014, the EBA published a specific impact assessment based on the EU voluntary Quantitative Impact Study (QIS) exercise that examines the revisions in the treatment of the leverage ratio provisions within the EU context. The EBA analysis recommended that the CRR definition of the leverage ratio should

be aligned with that of Basel III (the BCBS publication of January 2014). The alignment was judged desirable for reasons of consistency between the leverage ratio calculation within the EU and the other jurisdictions that implement Basel III. Another reason for alignment was that the revised Basel III framework leads to a more accurate measure of leverage and its implementation in the EU framework would, as estimated in this report, lead to leverage ratios that are broadly in line with, or possibly slightly higher than, leverage ratios calculated according to the current CRR.

Furthermore, a set of divergences were tested and analysed in terms of their impact, amongst these was the treatment of Securities financing transactions (SFTs), sold credit derivatives, recognition of cash variation margin, and the conversion factors for off-balance sheet commitments. Regarding SFTs ambiguity in the CRR were highlighted in terms of whether the security leg could or could not be used to reduce the cash receivable leg. In line with Basel III, the EBA report recommended it should be clarified that this reduction indeed cannot take place. Through the adoption of the Delegated Regulation (EU) 2015/62 of 10 October 2014 on leverage ratio, the Commission has reinforced the definition of the leverage ratio in Article 429 CRR on the basis of the EBA recommendations.

Under the BRRD and the SRM

In 2014, the EBA was requested by the Commission to share expertise and provide support to the Commission on delegated legislation stemming from the Regulation establishing the SRM and the BRRD. In particular, the EBA advised on delegated acts relating to critical functions and core business lines, exclusions from the bail-in, protected arrangements, deferral of ex-post contributions and the initial period of single resolution fund. Considering the deadlines for the Commission to issue relevant delegated acts, in 2014 the EBA focused on three pieces of advice.

- The advice on the delegated act on the definitions of 'critical functions' and 'core business lines' drew on the EBA experience of rulemaking on recovery and resolution planning (content and assessment), and on the benchmarking exercise carried out by

ONGOING ACTIVITY

In 2015, the EBA will continue to provide advice on delegated acts on protected arrangements (mandate under the BRRD) and on the initial period of the single resolution fund (mandate under the SRM).

the EBA on the identification of critical functions and core business lines (Comparison Report on Critical Functions and Core Business Lines in Recovery Plans). The advice specified criteria for the determination of the activities, services and operations which fall under the definition of critical functions, and the business lines and associated services relating to core business line definition.

- The advice on delegated acts on the exclusions of liabilities from the application of the bail-in tool set forth general considerations and then focused on the four circumstances listed in the directive as potential reasons for exclusions. It recommended that exclusions should be used restrictively, as the exceptions to the principle of equitable treatment of creditors of the same class. Moreover, with a view to the no-creditor-worse-off principle, the resources for absorbing losses despite exclusions are limited.
- The advice on the delegated act on the deferral of ex-post contributions recommended that resolution authorities should analyse the impact on solvency and liquidity of the institution in the first place, but it should be possible to take into account the macro prudential environment when specifying the trigger for the deferral.

The processes behind the EBA's work on the Single Rulebook

The EBA consults all its stakeholders on a regular basis to ensure their views and concerns are taken into account in the EU policy making process. Behind the EBA's development work on the Single Rulebook is a considerable amount of consultation and support activity. In 2014, this has included the development of a Q&A process; impact assessment work; legal support in drafting technical standards, guidelines and recommendations; the correct application of Union law; compliance against global standards; and the involvement of stakeholders in the EBA's work.

Developing the Single Rulebook Q&A process

The Single Rulebook Q&A tool offers a one-stop interface for NSAs, institutions and their associations, as well as other stakeholders, to submit questions on the practical application and consistent implementation of EU regulation in the EU banking sector. This tool provides clarifications on the CRD IV, the CRR, related technical standards (RTS and ITS) developed by the EBA and adopted by the Commission and EBA guidelines. The Single Rulebook Q&A drives the application of the regulatory framework in a consistent and effective manner across the EU single market; it has an important role in contributing to the building

of the Single Rulebook in banking regulation. The process entails close and ongoing interaction between the EBA, its members and the Commission, to ensure the answers are fully consistent with EU legislative texts.

Much work has gone into answering questions from stakeholders as regards to the interpretation and implementation of reporting requirements. In 2014, almost 50 questions per month were raised on reporting topics via the Q&A tool on the EBA website.

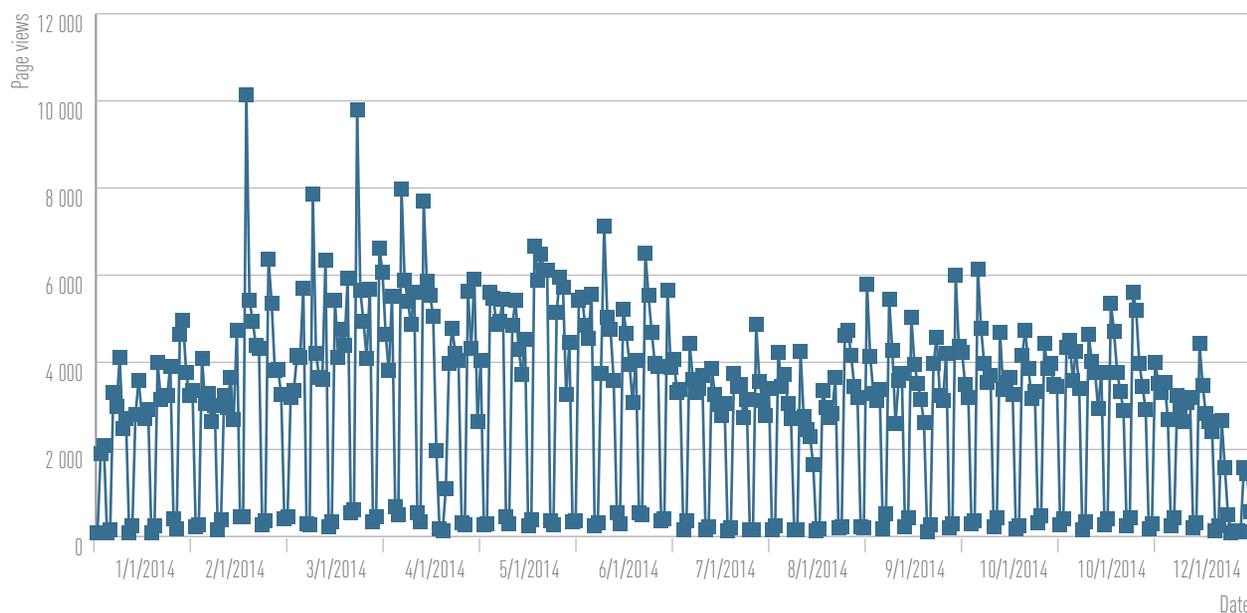
By 31 December 2014, about 1 700 questions had been submitted through the Q&A process. 580 Q&As have been finalised and published, 520 questions are currently under review in various stages of the process and about 600 submissions have been rejected as they were redundant or inappropriate.

In 2014, the majority of questions were submitted by institutions and focused mainly on the areas of Supervisory Reporting, Own Funds, Credit Risk and Liquidity Risk.

Below are some more specific figures related to 2014, with highlights of visiting peaks:

Since its launch in 2013, the EBA has continued to update, improve and review the web-based Q&A tool. The changes introduced focused on a stricter prioritisation; the possibility to regroup questions; and the publication

Figure 10: Analysis of web traffic to Q&A page (Jan-Dec 2014)



policy of questions under review. After consulting with stakeholders at a Q&A roundtable on these aspects in March 2014, the tool was re-organised in June. As part of the reorganisation, and to avoid duplication of questions, stakeholders are encouraged to review published and rejected questions, and to review user guidance before submitting a question. Today, the tool is the 8th most visited section of the EBA website.

2014 also saw the launch of the Interactive Single Rulebook Q&A Tool, which enables users to examine the regulatory framework in banking legislation (i.e. CRR) with links to technical standards or guidelines as well as Q&As relating to the corresponding Level 1 provisions.

The aforementioned changes were launched in June 2014, followed by the introduction at the end of September of a facility that allows the export of all final Q&As (or a particular subset) in PDF format, through a link to the tool's search function. The changes were well received by stakeholders, in particular the export facility and the introduction of the Interactive Single Rulebook.

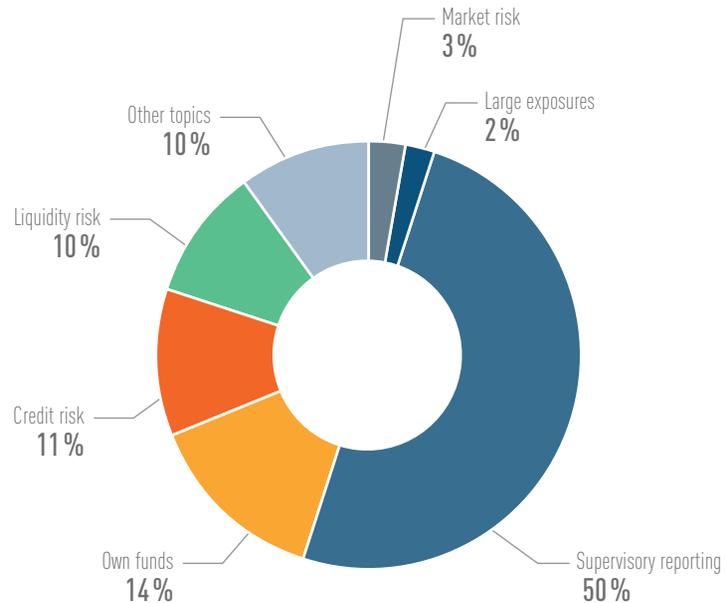
Impact assessment

The EBA applies the principle of better regulation in its efforts to develop the Single Rulebook, and performs impact assessment to support the EBA's development of regulatory policy.

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

The role of impact assessment at the EBA extends beyond the policy development phase. It also applies to monitoring the implementation of particular pieces of banking regulation, including, where appropriate, the application of relevant RTS and ITS that have been drafted by the EBA and adopted by the EC, and of

Figure 11: Breakdown of Q&As by topic



ONGOING ACTIVITY

In 2015, the EBA is expected to expand the Q&A process and Interactive Single Rulebook to incorporate Directive 2014/59/EU (BRRD).

the guidelines and recommendations issued by the EBA. One such product is the EBA's semi-annual analysis of the impact of CRD IV — CRR / Basel III rules on European credit institutions' capital, liquidity and leverage ratios and the estimated shortfalls relating to the lack of convergence with the fully implemented framework, the so-called CRD IV — CRR / Basel III monitoring exercise.

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

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

In 2014, the EBA published two reports monitoring the impact of the transposition of the Basel III requirements in the EU — in March for data as at June 2013, and in September for data as at December 2013, under a static balance sheet assumption. This exercise, run in parallel with the one conducted by the BCBS at a global level, gathered aggregate results on capital, risk weighted assets, liquidity and leverage ratio for banks in the EU. A total of 174 and 151 EU banks participated in the two exercises respectively, of which 43/42 banks form Group 1 banks (the largest internationally-active European banks with a Tier 1 capital exceeding EUR 3 billion).

Impact of liquidity coverage requirements in the EU

In 2014, the EBA conducted an impact assessment of LCR requirements in the EU, and published the results of the analysis in January 2015. The extensive analysis carried out by the EBA showed the general liquidity requirements were not likely to have a material detrimental impact on the stability and orderly functioning of financial markets or on the economy and the stability of the supply of bank lending. The analysis showed that to a large extent, this can be explained by the significant improvement, in terms of compliance, of EU banks with LCR requirements, as well as by the potential for balance sheet adjustments to meet LCR requirements, and the absence of supply constraints overall at country level due to redistribution of credit supply from non-compliant to compliant banks.

The EBA's analysis also concluded that the implementation of the envisaged Delegated Act on the LCR of the EC would have a marked positive impact on the LCR of specialised credit institutions, such as factoring and leasing, auto and consumer credit banks and other specialised credit institutions which were identified in the EBA's first report on the impact of LCR (published in December 2013) as being potentially detrimentally affected.

The report was based on liquidity data provided by 322 European banks, covering about two thirds of total banking assets in the EU. It was developed on the basis of Article 509(1) of the CRR, which mandated the EBA to report to

the EC on the impact of the liquidity coverage requirement on the business and risk profile of institutions established in the Union, stability of financial markets, economy and supply of bank lending. Additionally, the analysis will serve as a basis for EU policy makers in their work on high quality securitisation in the EU banking sector, which, by ensuring banks have sufficient liquid assets, will ultimately strengthen their resilience.

Legal support in drafting technical standards and guidelines and recommendations

The single largest part of the EBA's legal work in 2014 was to provide legal assurance and analysis of the EBA's regulatory work.

In the area of establishment of the Single Rulebook, the legal support was provided in all phases of the development of regulatory products ^[11] which included advice on mandates, as well as on procedures, drafting and consultation matters regarding the development of technical standards, guidelines and recommendations. The EBA also worked with the Commission, EIOPA and ESMA to establish working practices designed to ensure technical standards could be endorsed and published by the Commission as swiftly as possible following their adoption by the BoS.

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

Breach of Union law

Ensuring the correct and full application of Union law is a core prerequisite for the integrity, transparency, efficiency and orderly functioning of financial markets, the stability of the financial system, and for neutral conditions of competition for financial institutions in the Union. A mechanism has been established by the EBA Regulation whereby the Authority addresses instances of non-application or incorrect application of Union law. The EBA is required upon a request or on its own initia-

^[11] Decision of the European Banking Authority adopting a Procedure for developing and adopting Draft Technical Standards and Guidelines and Recommendations; see EBA website: <http://www.eba.europa.eu/about-us/legal-framework/decisions>.

tive to investigate the alleged breach or non-application of legally binding acts of the Union law in the competence of the EBA.

Changes introduced into the EBA Regulation by Regulation (EU) No 1022/2013 made it necessary for the EBA to develop procedures to provide for the new role of the EBA's Breach of Union law Panel. ^[12] The EBA raised preliminary enquires in relation to a number of requests received for investigations and adopted its first Breach of Union law recommendation to the Bulgarian National Bank and Bulgarian Deposit Insurance Fund in relation to their failure to comply with the Union law in not ensuring access to protected deposits for depositors of Corporate Commercial Bank AD (KTB) and Commercial Bank Victoria EAD (VCB). ^[13]

Compliance of the EU against global standards

During 2014, the BCBS conducted an assessment of the implementation of the Basel framework for the European Union as part of the so-called Regulatory Consistency Assessment Programme (RCAP). The purpose of the BCBS RCAP was to monitor the adoption of the Basel framework and assess the consistency and completeness of the Basel framework in BCBS jurisdictions. ^[14] During 2014, this assessment was made for the EU and the EBA participated together with national member states, ECB and the EC in the discussions with RCAP representatives from the Basel Committee.

The assessment of the EU implementation started in 2013, but the majority of the work took place during 2014 and the RCAP report was published on 5 December 2014. ^[15] The EBA participated in the discussions on the European regulatory framework, in particular with regards to the implementation of the technical standards adopted in the EU and its guidelines.

^[12] Decision of the European Banking Authority adopting Rules of Procedure for Investigation of Breach of Union Law; see EBA website: <http://www.eba.europa.eu/about-us/legal-framework/decisions>.

^[13] EBA notifies breach of EU law to Bulgarian authorities; see EBA website: <http://www.eba.europa.eu/-/eba-notifies-breach-of-eu-law-to-bulgarian-authorities>.

^[14] For more details about the BCBS RCAP, please see <http://www.bis.org/publ/bcbs264.pdf>.

^[15] The assessment of Basel III regulations in the European Union can be found here: <http://www.bis.org/bcbs/publ/d300.pdf>.

In addition, the participation of the EBA in the assessment required substantial resources, as the EBA designed and conducted a data collection exercise among 20 large internationally active banks and provided other supplementary data, which enabled a quantitative assessment of the EU implementation of the Basel framework.

The EBA also set up a project team with EU national authorities for discussing issues related to the data collection process and to ensuring data integrity, as well as a common understanding of the rules among supervisory authorities and participating banks. This ensured a consistent approach to the data collection exercise, which required banks and supervisors to perform detailed calculations in order to assess EU regulation against the Basel framework. The EBA led data collection and subsequent analysis formed the foundations of the main conclusions of the report, which was ultimately presented in an anonymous form to the RCAP representatives.

Involvement of stakeholders in the EBA's regulatory work

The EBA adheres to a policy of full transparency of its working processes, and strives to ensure that it engages with all competent authorities, stakeholders and interested parties, such that they are informed of, and have the possibility to provide input to the EBA's work in the process of development of its work, especially in relation to the Single Rulebook.

A key part of EBA's engagement with stakeholders is through its Banking Stakeholder Group (BSG). The BSG's view is sought on actions concerning RTS and RTS, guidelines and recommendations, to the extent that these do not concern individual financial institutions. Moreover, the BSG provides the EBA with its view on the assessment of market developments, which feed into the EBA's banking risk reports. The EBA also seeks the BSG's views on emerging risks for consumer protection and financial innovation.

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

The BSG has provided its input by responding to the EBA's public consultations as well as providing informal feedback and contributions to the EBA's work on technical standards and guidelines. In 2014, the BSG provided opinions on 30 Consultation Papers, including 4 submissions to Joint Committee's Consultation Papers and 2 responses to EBA Discussion Papers, e.g. in relation to consumer protection, recovery and resolution matters, capital and risks analysis.

The second term of the BSG commenced in 18 October 2013, as a result of a call for applications. Of the 30 members of the BSG, 10 are delegates from credit and investment institutions (3 of which represent savings or cooperative banks), 10 are representatives of consumers and users, 6 are academics, 2 represent small and medium-sized enterprises and 2 are employees' representatives. Four new members of the BSG were selected to replace members that had resigned over the course of 2014, for personal reasons. In each case, the EBA carried out a selection process from the original list of applicants to the second term of the BSG, seeking to ensure adequate balance between EU Member States, represented entities and members' gender, in line with the Ombudsman's requirements. The BSG elected David T. Llewellyn, Professor of Money and Banking at Loughborough University in UK, as its Chairperson, and Andrea Resti, Professor

in Banking and Finance at Bocconi University in Milan, as the Vice-Chairperson.

The BSG has established three standing technical working groups, namely on: 'Capital and Risk Analysis Group', 'Recovery, Resolution and Systemic Issues Group' and 'Consumer Issues and Financial Innovation Group'. Furthermore, the BSG has set up an ad hoc working group on the 'Principle of Proportionality', which will present the results of its work in 2015.

In 2014, the BSG held five regular meetings and two joint meetings with the EBA's BoS. Also, some BSG members have been actively involved in other activities of the EBA, e.g. as speakers at the Joint ESA Consumer Protection Day in June 2014 or as presenters at the EBA's research workshop on how to measure the riskiness of banks in November 2014.

With the aim to ensure that input to EBA's work is gathered from all interested parties and from all relevant stakeholders, beyond the BSG, stakeholders are invited to submit their comments to public consultations, and participate in public hearings, on EBA's draft technical standards and guidelines. In addition, the EBA has occasionally hosted bilateral meetings with representatives of some industry trade associations, consumers and employees, predominantly for specific technical considerations to assist its policy making.

Promoting Supervisory Convergence

The EBA promotes cross-border supervisory cooperation for those banking groups that operate in more than one EU country as well as mediating cross-border disputes. Supervisory convergence was a key topic in 2014, with the EBA's efforts focused on:

- facilitating convergence of supervisory practices through further work on the European Supervisory Handbook;
- driving convergence through a range of supervisory training seminars;
- improving processes and cooperation for key supervisory tasks in supervisory colleges; assessment of equivalence of confidentiality provisions of third countries to promote consistent treatment of third countries;
- continuing work on matters related to recovery and also beginning engagement with resolution authorities.

To facilitate the above, the EBA has developed a number of communication and support tools.

Developing the European Supervisory Handbook

Leading on from the work on the Single Rulebook in providing a single set of harmonised prudential rules for institutions and competent authorities, the EBA has continued development of the European Supervisory Handbook. This is a common framework for the identification, measurement and analysis of risks in banks, together with common guidance for supervisory intervention and corrective action. The Handbook is a nonbinding collection of supervisory best practices to be applied in the EU. The first module of the Handbook focused on business model analysis while the second module focused on the supervisory assessment of recovery plans, operationalising the requirements of the technical standards and guidelines covering the area of development and assessment of recovery plans, and providing practical supervisory tools to facilitate the assessments. The Handbook module also aims at helping competent authorities in the assessment and reaching a joint decision on group recovery



plans by providing common processes to be followed by supervisory colleges.

Engagement with supervisory colleges

2014 was a challenging year for supervisory convergence in colleges. A number of tasks were undertaken which included implementing new legal requirements like the joint decision on liquidity; carrying out the key thematic exercises like the Asset Quality Reviews (AQR) and Stress test (see Box 6); and overseeing the important transition for institutions in a Eurozone Member State in cases where supervision was transferred to the SSM on 4 November 2014. However, significant progress continued and colleges remained vital as the forum for supervisory cooperation for cross-border banking groups.

The EBA opted for a new approach for engaging with colleges in 2014 with the aim of providing an appropriate level of interaction according to the systemic importance of each banking group. To achieve this, an additional category for colleges was created resulting in three monitoring categories: 'closely monitored colleges' involving a more intense level of communication between the EBA and the respective home supervisors; 'colleges followed on a thematic basis' where EBA staff interacted with the colleges on specific topics, and 'other colleges' where a group-based approach was used in the EBA communication with the relevant home supervisors. This approach enabled a more efficient use of resources.

Additionally, to support the transition of tasks to the SSM while re-establishing colleges with the new supervisor, the EBA provided assistance to the SSM with the aim of ensuring continuity of college activities throughout the transition process.

In addition to the new approach for college monitoring, the EBA developed its suite of tools for supervisory colleges. One of such tools is the quarterly EBA Colleges Newsletter to inform and support colleges on relevant regulatory developments. Additionally, the micro risk dashboard is a tool used to provide information to supervisory colleges on how a bank is performing in comparison to its peers on a set of Key Risk Indicators (KRIs) (see Figure 19-Risk Dashboard).

College highlights in 2014

The published EBA annual Colleges Action Plan for supervisory colleges provides competent authorities, involved in supervisory colleges, with a set of expected deliverables based on the tasks defined in the CRD and BRRD which aim to improve supervisory convergence. The EBA monitors these tasks by engaging with colleges in accordance with their monitoring category.

Overall, the requirements of the EBA Colleges Action Plan for 2014 have been fulfilled to a reasonable extent and improvements

were noted in college functioning compared to previous years. The EBA follows colleges from the EU banking sector as a whole and in particular colleges undergoing specific changes or restructuring (thematic colleges) as well as colleges of the largest significant banks (closely monitored colleges). In 2014 the EBA monitored 17 thematic colleges and 25 closely monitored colleges at the beginning of the year. These 25 closely monitored colleges held a total of 51 physical meetings during the course of the year. Following some restructuring changes, however, the number of closely monitored colleges fell from 25 to 22 by end-2014. And due to institutional changes in 2014, only 7 of these 22 colleges had agreed and finalised the joint decisions by end-2014. However, the remaining colleges were in the process of finalisation with no cases of disagreement noted. Furthermore, the issuance of the EBA home host protocol guidance (see also Box 5 on the 2014 EBA EU wide stress test) meant that 87 % of colleges shared the stress test results within the college before publication ensuring a coordinated approach at publication.

For the first time, the EBA identified a three level scoring system (good, satisfactory and improvement needed) to feedback to colleges at the end of the year on their performance and the Colleges Action Plan with identified and clear benchmarking. Some key components of college functioning are summarised below using the three level scoring system.

Figure 12: Quality and depth of discussions at College meetings in 2014

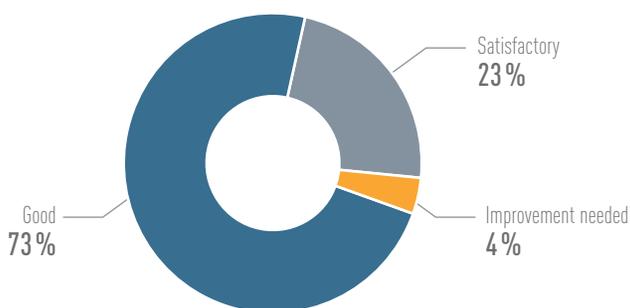
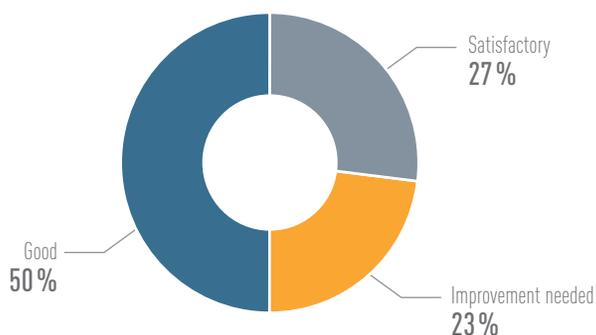


Figure 13: Quality of Joint Risk Assessments process and content



College meetings

2014 saw an increase in communication and cooperation within the college framework with more physical meetings and regular telephone conferences, especially due to the additional thematic discussions in the context of the AQR and stress test exercises. In general, meetings were well structured and focused on developing a common understanding of the risk profile of the respective cross-border banking groups. Overall, the EBA observed good quality and in-depth discussions in the majority of colleges.

The active participation of the EBA during college meetings was welcomed by competent authorities in particular with regards to the interpretation of new policy products and their effect on the functioning of colleges as well as

on the content and articulation of key deliverables. EBA guidance on thematic topics like the AQR and stress test was also well received. ^[16]

Key deliverables

The EBA monitored the quality of the joint risk assessments and joint decision processes for capital and liquidity. Colleges experience over the past few years on the process for the joint risk assessment and decision on capital is reflected in the quality of these documents, and in the reasonable consistency between the risk assessments and the joint decision proposals.

2014 was the first year for EU colleges to reach the joint decision on liquidity. In early 2014, the EBA published a discussion paper with the draft methodology for assessing liquidity and funding risks under the SREP framework to support competent authorities in this new task. The final methodology has been incorporated into the SREP guidelines published at the end of 2014 (see Box 3).

The outcomes of the joint decisions on liquidity have been rather varied with regards to the liquidity measures, due, not only to the differences in liquidity risk profiles, but also due to the use of different national methodologies for quantifying liquidity risk. A number of shortcomings were found in the processes, however, and in future the LCR framework and the SREP guidelines should contribute to a more consistent approach. The EBA intends to continue working closely with competent authorities to assist them in implementing these policy products.

Equivalence of third countries

The EBA activated work on equivalence in 2014, beginning with the assessment of equivalence of professional secrecy and confidentiality provisions of third countries' supervisory authorities. This work will result in recommendations which will inform relevant opinions of supervisory college members on third countries allowing for a consistent treatment of third countries when determining which authorities can be invited to the supervisory colleges, according to Article 116(6) CRD.

^[16] Box 6 on p.68

The EBA's review of cross border banks' critical functions and core business lines

In 2014, in anticipation of the legal implementation of BRRD, the EBA intensified its efforts to contribute to the development and coordination of effective and consistent recovery and resolution planning across Europe.

The EBA undertook a comparison exercise of 27 European cross-border banking groups — accounting for approximately half of EU banks' total assets — focusing specifically on how credit institutions assessed Critical Functions (CFs) and Core Business Lines (CBLs) in their recovery plans. The review identified substantial variation across banking groups in terms of the overall approach to identification with some room for further improvement in particular for defining critical functions. The findings were communicated to competent authorities to support their assessment of recovery plans and to resolution authorities to assist them in the context of their resolution planning. A synopsis of the analysis will also be published for the benefit of credit institutions.

The EBA's engagement with Resolution Authorities

The EBA continued to attend all Crisis Management Groups (CMGs) meetings for major banking groups contributing to the resolution planning discussions focusing, in particular, on the cooperation aspect across competent authorities for the purpose of promoting supervisory convergence in this field.

To provide support to resolution authorities in their establishment phase, the EBA conducted a survey with established resolution authorities on certain organisational aspects (operations, resourcing and financing) with regard to setting up those respective national resolution authorities. The survey results were shared amongst competent authorities and provided useful benchmarking information and emerging trends in Member States. In addition, the EBA, in conjunction with the SRB, held a seminar in December 2014, targeted at resolution authorities entitled 'Establishing Resolution Authorities & Resolution Planning'. The event provided a snapshot of current developments on the establishment of resolution authorities

within the EU and an operational perspective on resolution planning with the aim of facilitating an open and collaborative approach amongst resolution authorities.

Mediation

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

Taking into account the changes introduced into the EBA Regulation by Regulation (EU) No 1022/2013, the EBA's mediation processes were reviewed and new procedures were developed to reflect the increased size of the EBA's Mediation Panel in order to ensure the continued effectiveness of the initial conciliation phase of mediation. ^[17] The rules on mediation were applied in 2014 in two cases of non-binding mediation and two cases of binding settlement of disagreements between competent authorities, all of which were settled amicably at or before the conciliation stage. To raise awareness among the National Competent Authorities (NCAs) on the role and features of the mediation processes a Mediation workshop was organised.

^[17] Decision of the EBA on adopting the Rules of Procedure for the non-binding mediation between competent authorities; see EBA website: <http://www.eba.europa.eu/about-us/legal-framework/decisions>.

Peer reviews

Another tool that the EBA uses to foster consistency in supervisory outcomes is conducting peer reviews of activities of competent authorities, in line with Article 30 of the EBA regulation. The peer review work is carried out by the EBA's Review Panel, using a peer review methodology agreed by the EBA's BoS in June 2012. The peer reviews seek to assess supervisory implementation practices, such as of EBA's regulatory products and including an assessment of the adequacy of competent authorities' resources and governance arrangements, the degree of convergence in the application of these supervisory practices, including legal frameworks and guidance; and seeks to identify best practices developed by competent authorities.

The results of a peer review can lead to identification of best practices which might be of benefit for other competent authorities to adopt, to issue changes to existing guidelines and recommendations, inform technical standards under development, and/or result in the EBA providing an opinion to the EU Institutions.

In 2014, all competent authorities underwent a peer review in relation to their adherence to specific aspect of the EBA's peer review on the credit concentration risk aspects in the EBA 'Guidelines on the Management of Concentration Risk under the Supervisory Review Process (GL 31)'. ^[18] The peer review consisted of a self-assessment undertaken by competent authorities, followed by the review by peers phase. The EBA further conducted two on-site visits to competent authorities based on the outcomes of the desk-based peer review of GL 31 to supplement its final assessment. The final report, listing all findings from the peer review and from the on-site visits, was published in July 2014. ^[19] The findings from the peer review suggested that concentration risk is continuously monitored and assessed and forms an integral part of the NSAs' risk

^[18] Guidelines on the Management of Concentration Risk under the Supervisory Review Process (GL 31): <https://www.eba.europa.eu/documents/10180/16094/Concentration.pdf>.

^[19] Report on the peer review of the EBA Guidelines on the management of concentration risk under the supervisory review process (GL 31), <http://www.eba.europa.eu/documents/10180/534414/EBA+Report+on+the+peer+review+of+the+GLs+on+credit+concentration+risk.pdf>

assessment system for individual credit institutions. Furthermore, various examples of good supervisory practices were identified in relation to the management of credit concentration risk. These included the use of domestic central credit registers; the capability of large credit institutions to capture adequate credit data, analyse and monitor their credit concentrations, and produce a comprehensive set of automated supervisory reporting; and the conduct of regular benchmarking exercises by NCAs for credit concentration risk by sector, industry and/or country. The report also identified some weaknesses, such as that some competent authorities do not adequately verify whether credit institutions apply forward-looking credit risk mitigation techniques and risks associated with large indirect credit exposures. Based on the outcome of the peer review, the EBA will assess these elements and practices when developing the module on credit concentration risk in its Single Supervisory Handbook.

The EBA's BoS agreed to conduct a review of the EBA Guidelines on the assessment of the suitability of members of the management body and key function holders (EBA/GL/2012/06) ^[20]. This peer review started in the second half of 2014 and is expected to be finished by summer 2015.

The Review Panel issued a follow-up questionnaire in Q4 2014 on the peer review of the EBA Guidelines on Stress Testing (GL 32). The purpose of this questionnaire was to monitor whether progress had been made by competent authorities since the publication of the EBA final Peer Review Report in November 2013. ^[21] The responses revealed that most of the competent authorities had changed their legal framework or were in the process of doing so, to enhance their compliance with the Guidelines' requirements, and, if necessary, with CRR/CRDIV new requirements regarding the supervisory review of institutions' stress testing programmes.

^[20] Guidelines on the assessment of the suitability of members of the management body and key function holders (EBA/GL/2012/06) <https://www.eba.europa.eu/-/guidelines-on-the-assessment-of-the-suitability-of-members-of-the-management-body-and-key-function-holders-eba-gl-2012-06>

^[21] Peer review on the implementation of the stress testing guidelines <http://www.eba.europa.eu/-/eba-publishes-peer-review-on-the-implementation-of-the-stress-testing-guidelines>

ONGOING ACTIVITY

In terms of the EBA's work on peer review, the review of the EBA guidelines on the assessment of the suitability of members of the management body and key function holders (EBA/GL/2012/06) is currently ongoing and is expected to be finished by summer 2015. The Review Panel is currently assessing as to the potential topics to be reviewed in the future peer reviews

EBA training programmes

One of the EBA's objectives is to develop a common supervisory culture, skills and approaches across EU competent authorities. In this respect, the EBA provides seminars, conferences and roadshows aimed at enhancing supervisory convergence. This work is also carried out at a cross-sector level in cooperation with ESMA and EIOPA. The training sessions are targeted at and restricted to staff of the national authorities.

In 2014, the EBA organised 15 sector and 5 cross-sector trainings for competent authorities, 8 out of which took place at the EBA's office — the list of trainings is provided below. When designing its training plan, the EBA endeavours to focus on priority areas from its Work Programme, supporting supervisory implementation of its Regulatory Products, and possibly repeat the most successful/oversubscribed trainings. The feedback from attendees has broadly been very positive. For example, in December 2014, the EBA organised its inaugural introductory workshop on mediation which was extremely well received; subsequently two additional trainings on mediation have been scheduled for 2015. The EBA has also organised a number of seminars on the issues of recovery and resolution, both on the sectoral and cross-sectoral basis, in view of entry into force of the Bank Recovery and Resolution framework on 1 January 2015.

Figure 14: Overview of sectoral training events provided by the EBA to NSAs in 2014

No	Name of training activity	Date	Location	Number of participants
1	Joint Decisions on Capital and Liquidity	27-28 February	EBA, London	60
2	Structured Analysis and writing in regulatory policy making	4 March	EBA, London	11
3	Business Model Analysis-First Module of the Single Supervisory Handbook	5 March	EBA, London	68
4	Data Analysis-Analytical Solution for Banking Supervision	13-14 March	Lisbon, Portugal	79
5	Importance of Liquidity Risk Management for the stability of individual banks and the financial system	17-19 March	Eltville, Germany	21
6	Workshop on the Assessment of Recovery Plans	20 March	EBA, London	47
7	EBA-FSI Joint training on Basel III-CRD IV and Systemic Risk	8-10 April	EBA, London	57
8	Cross-sector seminar on Corporate Governance	24 April	Paris, France	57
9	Data Point Model and XBRL	11-13 November	Zagreb, Croatia	65
10	Joint EBA-ACPR seminar on Market Risk	25-26 September	Paris, France	57
11	Good Practices in IT Supervision on Financial Institutions	14-15 October	Zagreb, Croatia	57
12	Workshop on RTS Resolution Colleges	25 October	EBA, London	33
13	XBRL Tools and Development for Staff of IT Supervisory Authorities	5-7 November	Luxembourg	20
14	Workshop on the Role of Mediation in Colleges	1 December	EBA, London	20
Total				652

Figure 15: Overview of cross-sectoral training events provided by the EBA to NSAs in 2014

No	Name of training activity	Date	Location	Leading ESA	Host	Number of participants
1	Rating lifecycle and Reduction of reliance on ratings	20-21 March	Paris	ESMA	ESMA	38
2	Joint Committee seminar on Corporate Governance	1 April	Paris	ESMA	ESMA	57
3	Crisis Prevention, Management and Resolution	15-16 May	Vilnius	EIOPA	BoL	50
4	Regulatory Impact Assessment	6-7 October	Malta	EIOPA	MFSA	37
5	Colleges of Supervisors - an introduction	27-28 November	Berlin	EIOPA	Bafin/ ESE	49
Total						231

Figures 16 and 17 below compare the number of cross-sectoral technical trainings offered in 2012-2014, including the total number of participants. Compared to previous years, in 2014 the number of cross-sectoral trainings dropped as a result of planned cross sectoral trainings which were converted into sectoral trainings and certain topics which were merged and presented in one seminar.

In 2014, 6 of the 15 seminars and workshops were on topics related to supervisory convergence which is a key focus for the EBA – from the table above these are (i) joint decisions on capital and liquidity; (ii) Business Model Analysis-First Module of the Single Supervisory Handbook; (iii) Workshop on the Assessment of Recovery Plans; (iv) Workshop on RTS on resolution colleges; (v) Workshop on the Role of Mediation in Colleges; and (vi) EBA-SRB Seminar on Establishing Resolution Authorities & Resolution Planning. Through these trainings the EBA is working on specific topics with the aim of driving forward consistent and best supervisory practices building on the Level 1 and 2 texts.

For training planned for 2015, please see the Supervisory Convergence section in Key areas of focus for 2015.



Figure 16: Number of cross-sector seminars 2014 (technical training only) compared to 2012 and 2013

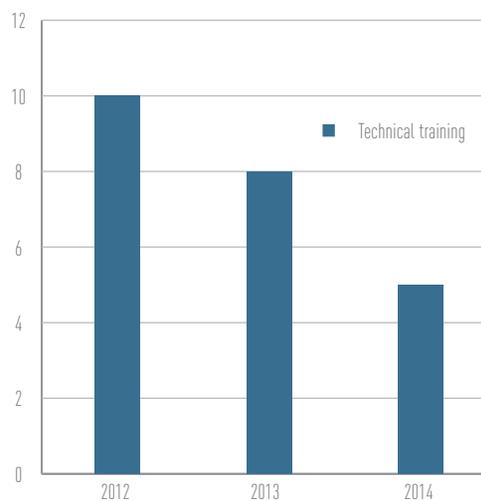
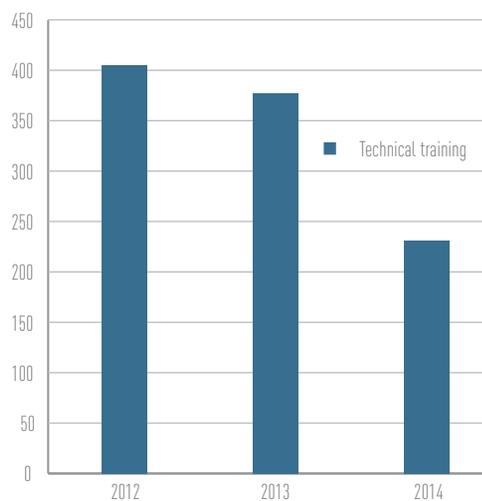


Figure 17: Number of participants at cross-sector seminars 2014 (excluding 136 participants in soft-skill courses) compared to 2012 and 2013





Assessing risks and ensuring transparency in the EU banking sector

The EBA is mandated to monitor and assess market developments, as well as to identify trends, potential risks and vulnerabilities across the EU banking system and is uniquely placed to do so. In 2014, the EBA's risk assessment infrastructure was further strengthened with significant developments in the following areas:

- The EBA as a central EU data hub; the roll out of the new reporting standards strengthened the EBA's role as the EU data hub for supervisors and market participants.
- The EBA's own risk infrastructure; harnessing the new reporting requirements to improve its key risk indicators and suite of regular risk products; undertaking thematic work on RWA consistency; and coordinating the Union wide assessment of the largest EU banks in the form of a stress test.

In addition, the EBA carries out macro-prudential work and activity around shadow banking.

The EBA as a data hub

The EBA developed and rolled out, for the first time, a single set of supervisory reporting standards in the form of Common Reporting Requirements (COREP) and Financial Reporting Requirements (FINREP). It has worked to improve the quality assurance process and data sharing within the EU as these standards have significant benefits for many users including:

1. Efficiency for banks operating in the Single Market with a single set of supervisory reporting standards designed to avoid duplication and differing reporting requirements, and comprehensive enough to minimise ad hoc data collections.
2. Bank monitoring tools for supervisors who receive consistent data across the single market to monitor Pillar 1 requirements and assess risks under Pillar 2.
3. System monitoring tools for supervisory authorities, the EBA and the ESRB, with consistent data across the single market facilitating effective peer analysis and improving system wide analysis.
4. The EBA uses the reporting data to provide aggregate information to market participants.

For the first time, the reporting standards provide fully harmonised information on banks' own funds (COREP) and balance sheet data (FINREP). To support uniform implementation and increase efficiencies, the EBA has developed Data Point Models and taxonomies and has worked to improve quality assurance process via common validation rules, worked with competent Authorities to minimise the challenges in transmitting data and to find versioning solutions to enable consistent time series.

In addition to the data collection, during 2014 the EBA was also active in promoting the harmonized reporting standards in other data reporting frameworks. Together with the ECB, the EBA conducted a review of the Consolidated Banking Data framework in order to align it with the harmonised ITS on supervisory reporting and to benefit from harmonised and richer data available to EU supervisors. Consolidated Banking Data, published by the ECB, covers aggregated data of each EU banking system based on supervisory data.

Quality assurance process of supervisory data

With the broadening of collected data in 2014, the EBA increased its efforts to ensure timeliness, completeness and quality of this data. To this end, the EBA has been promoting the development and application of validation rules and quality checks under the current reporting framework. These are aimed at enhancing consistency and ensuring plausibility of the compiled information.

The EBA has also encouraged competent authorities to improve their internal systems and ensure the quality of this data before submitting it to the EBA. The EBA seeks to constantly improve the way such feedback is given and, to that end, has been devoting significant resources to this task.

Data sharing and Memorandum of Understanding

The EBA facilitated sharing of micro-prudential data of individual banks among competent authorities. Supervisors could join a shared database on a voluntary basis and share and receive KRIs of banks in the EBA sample. The Memorandum of Understanding (MoU) will be updated in early 2015 and is foreseen to cover all supervisors. Supervisors now have a comprehensive set of fully comparable risk indicators for 192 banks to support their supervisory tasks. The sharing and analytical use is further facilitated with an EBA tool for building customised Risk Dashboards.

Transparency

In addition to the provision of aggregate data in its risk reports the EBA has a role as a data hub in the public dissemination of consistent bank level data with the objective of reducing uncertainty, and enhancing market discipline. To that end, it has undertaken transparency exercises every year since 2011.

The EBA also continued its work on improving regulatory disclosures by banks (Pillar 3 disclosures), their consistency and their comparability. 2014 was the first year of implementation of the disclosure requirements

in Regulation (EU) 575/2013, which sets out new disclosure requirement covering capital buffers, indicators of global systemic importance, encumbered and unencumbered assets and the leverage ratio. These new areas all included mandates for the EBA to specify the requirements via guidelines or technical standards and they were all delivered in 2014. Nonetheless, not all have been implemented by banks, as in some instances the entry into force of the disclosure (Pillar 3) requirements is subordinated to the effective implementation of the regulatory (Pillar 1) requirements.

The EBA also issued guidelines that aim at achieving more consistency in the use of the concepts of (i) material information, (ii) proprietary and confidential information, and (iii) practices of institutions regarding interim disclosure — thereby increasing the quality of information disclosed and its comparability across institutions.

Figure 18 compares the former disclosure framework in Directive (EU) 2006/48 and the new disclosure framework instituted by the CRR.

In addition, the EBA was involved in the development of the Basel Committee's revised Pillar 3 framework, which was released in 2014. This framework differs from the existing Pillar 3 disclosures in the Basel framework as well as from the framework in Regulation (EU) 575/2013 because it implements standardised templates and additional disclosure requirements, especially regarding links between the accounting and the regulatory exposure values and credit risk management. The Basel Committee set an implementation date at year-end 2016, and the EBA may undertake some work to support supervisors implement the new framework in the EU.

2014 also marked the first year where information on Global Systemically Important Institutions (G-SIIs) were published; this is to be repeated on an annual basis. This data disclosure included a range of indicators used to assess the systemic importance of the largest banks in the EU to address too-big-to-fail concerns. It was designed with the consideration of the Basel Committee efforts to identify global systemically important banks (G-SIBs).

Figure 18: New disclosure requirements under the CRR

Disclosure requirements in Regulation (EU) 575/2013 (the CRR)	Changes brought by the CRR compared to Annex XII of Directive 2006/48
NEW REQUIREMENTS	
Capital buffer (Article 440)	New areas which are specified by Guidelines and/or Technical standards at various stages of finalisation or implementation
Indicators of global systemic importance (Article 441)	
Encumbered and unencumbered assets (Article 443)	
Leverage ratio (Article 451)	
ADDITIONS OR MODIFICATIONS OF EXISTING REQUIREMENTS	
Risk and risk management (Article 435)	Linkages between risk profile and business strategy Governance structures and their composition
Own funds (Article 437)	Technical standard on own funds disclosures
Capital requirements (Article 438)	Possibility to disclose Pillar 2 requirements if requested by competent authorities
Credit risk under the IRB approach (Article 452)	Breakdown of exposure-weighted average PD and exposure-weighted average LGD by geographical location
Market risk (Article 445 and Article 455)	Separate disclosure of the different components of own-funds requirements when calculated under the internal model approach
Securitisation (Article 449)	Cases and consequences of non-contractual support
Remuneration (Article 450)	Ratios between fixed and variable remuneration, Number of individuals with more than EUR 1 million remuneration, Total remuneration for each member of the management body or senior management
NO CHANGES	
Scope of application (Article 436)	N/A
Counterparty credit risk (Article 439)	
Credit risk adjustments (Article 442)	
Credit risk under the Standardised approach (Article 444)	
Operational risk (Article 446 and Article 454)	
Credit risk mitigation (Article 453)	
Equities not included in the trading book (Article 447)	
Interest rate risk in the banking book (Article 448)	

Risk infrastructure

The founding regulation of the EBA mandates it to regularly assess the risk and vulnerabilities in the European banking system and to share the conclusions and analysis with the BoS, the ESRB, the Parliament, the Council and the Commission. This unique position enables the EBA to look at banks across the EEA from a micro-prudential perspective. This is done either

through the EBA's regular risk analysis products, thematic work on issues such as RWA consistency or through ad hoc reports.

As a part of ensuring stability and restoring confidence in the banking system, the EBA also conducts EU-wide stress testing exercises. In this context, in 2014, the EBA in cooperation with institutions and authorities carried out the EU-wide stress test.

Regular risk analysis products

Following the enactment of ITS on reporting in 2013, the EBA's collection of data broadened both the data coverage as well as the number of institutions reporting central data to the EBA to use in its risk products. The sample of 55 reporting institutions transmitting supervisory data to the EBA grew to 192 institutions based in 29 European countries (EU member states and Norway). The wider sample and enriched database will be gradually rolled-out and will expand the coverage of the EBA's risk product with the most immediate effect on the KRIs which drive the EBA's risk dashboard. KRIs are a set of financial indicators on banks' performance, solvency and balance-sheet structure, which are used in identifying potential risks in the banking system and are fully comparable between banks. The risk dashboard, first published in autumn 2013, looks at the evolution of KRIs. Besides the graphical overview of aggregated KRIs trends, the quarterly report also includes a colour-code system, which facilitates the identification of major sources of risks and trends in banks' risk profiles (see Figure 19 - a recent Risk Analysis Dashboard).

As part of the EBA's assessment of the risks and vulnerabilities of the EU's banking system, the EBA continued to produce its risk assessment report (RAR) twice a year. This public report is the main product for discharging EBA's responsibility to highlight risks to the Parliament, the Council, the Commission and the ESRB, and it is available on the EBA website. The report constructs a forward-looking view of risks of concern to regulators and policymakers by drawing on the views of banks and national supervisors. Besides usage of quantitative data, the main input to this report is the risk assessment questionnaires sent to banks and/or their supervisors, as well as market analysts.

In connection to the work produced by the Joint Committee of the ESAs (EBA, ESMA and EIOPA), the EBA contributes to the semi-annual cross-sectoral report on risks and vulnerabilities of the EU financial system. The reports were tabled and presented at meetings of the Economic and Financial Committee's Financial Stability Table and the ESRB. They are published and can be found on the ESAs' websites.

BOX 4 — Risks in a cross border context

In 2014, the EBA encouraged supervisory awareness of a number of risks deemed of high importance due to, for example, increased occurrences and severity of associated costs for banks. These key risks, which are expected to prevail also in 2015, include:

- Credit risk and quality of assets
- Capital position
- Profitability and banks' business models
- Impact of geopolitical risks
- Supervisory benchmarking
- Remuneration

In the cross border context, additional risks were brought to the attention of colleges of supervisors. One of these such risks was business conduct related issues (i.e. conduct risk) where the EBA encouraged colleges to build up common understanding on the prudential impact of conduct risk, the assessment of capital and provisions to cover related losses as well as the assessment of a banking group's internal governance, controls, risk appetite and corporate culture. This has been reflected in college discussions and in some cases within the joint risk assessment report.

Another area which the EBA has promoted enhanced review is IT risk, given the increase in IT related incidents like cyber fraud and hacking which have both a prudential and reputational impact on banks. This is a topic that merits further EBA focus in 2015.

Use of micro risk dashboard in colleges

To further assist competent authorities in their discussions and assessment of the risks of the EU cross-border banking groups, the EBA regularly delivers the micro risk dashboard to supervisory colleges. This is based on a sample of KRIs providing supervisors with the opportunity for peer-group comparisons on trends, potential risks and vulnerabilities. Following the positive feedback from colleges on the relevance and usefulness of the micro risk dashboard, the EBA will upgrade and enrich the EBA micro risk dashboard in 2015.

Risk analysis dashboard

Figure 19: December 2014 Risk Analysis Dashboard (Extract)

	Bank risk	Risk drivers	Level of risk				Contributing factors/interactions	
			Last quarter (memo)		Current quarter			
			Level	Expected trend	Level	Forward trend		
CAPITAL	PILLAR 1	Credit risk	Asset quality	■	→	■	→	The AQR and stress test resulted in more clarity on problem loans and level of impairments/provisions. However, asset quality remains a major challenge, also in light of increasingly uncertain economic developments with lower growth prospects in the EU and worldwide (including emerging markets). Credibility of banks' risk weighted assets is also a challenge over seemingly improving capital ratios. Banks remain vulnerable to exogenous shocks (e.g. FX and commodity price volatilities).
		Market risk	Volatility and risk of decreasing market liquidity	■	↑	■	↑	Geopolitical tensions and political risks rise again, including risks from elections in several EU countries, Russia / Ukraine, etc. Market volatility continues to be affected by the diverging monetary policy stances by global central banks, including risk of deflation. Financial markets are vulnerable to a reversal of market sentiment, to asset price volatility and to decreasing market liquidity.
	PILLAR 2	Operational risk	IT risk, litigation risk	■	→	■	→	IT and internet related risks (e.g. cyber-risks) are growing further. Litigation costs have become increasingly onerous and unpredictable, and further costs from misconduct fines and settlements are expected.
		Concentration risk, IRRBB and other	Interest rates	■	→	■	→	Low interest rates help maintain asset quality and improve affordability of bank credit, but affect profitability by reduced interest income. Low interest rates also provide incentives for increased risk taking and for loan forbearance.
		Reputational and legal	Index/FX investigations, mis-selling	■	→	■	→	Confidence in banks continues to be affected by legacy practices. Litigation costs have been substantial and continue to materialize, in some cases severely impacting profitability levels.
		Profitability	Margins, provisions, business model changes	■	→	■	→	Non-performing loans still stand close to their peak and interest income generation opportunities are still reduced. New lending seems to be recovering, although net interest margins remain low. Additional pressure is on banks with low profitability to rethink business models. Legal and redress costs have and will continue to materialize, in some cases severely impacting banks' profitability.
LIQUIDITY & FUNDING	Access to funding and maturity distribution	Market funding and liquidity	■	↓	■	↑	Banks, including those from peripheral countries, benefited from strong investor demand for European banks' debt in combination with the reduction of their issuance volume. However, issuance volumes have been volatile. No real shortage of market funding has been observed, but access to market funding at reasonable prices remains susceptible to adverse news. However, there is an ongoing high risk of contracting liquidity in the funding market.	
	Funding structure	Reliance on central bank funding	■	↓	■	→	Even though more and more banks have returned to funding markets many institutions rely on central bank funding. The share of market funding as well as through deposits from customers remained rather stable. Issuance volumes of CoCo bonds have been significant.	

	Bank risk	Risk drivers	Level of risk				Contributing factors/interactions
			Last quarter (memo)		Current quarter		
			Level	Expected trend	Level	Forward trend	
ENVIRONMENT	Regulatory environment	Regulatory initiatives	■	→	■	→	Regulatory clarity has further improved, though execution risks remain ahead, e.g. on TLAC / MREL and new regulation in respect of the application of the internal rating based approach.
	Fragmentation	Continued lack of confidence, sovereign/bank link	■	→	■	→	Despite certain improvements, geographical fragmentation in respect of asset quality, bank restructuring and of funding conditions continues in the EU, mainly between large cross-border banks and smaller banks, but also between countries. Rates for similar companies still diverge in different countries. There is an ongoing low level of cross-border lending, and some retrenchment of banks to home markets can be observed. It remains an expectation that the linkage between banks and their sovereigns will decrease in future again.
	Sovereign risk	Fiscal policy & effectiveness, debt restructuring	■	↓	■	→	Non-negligible fiscal deficits persist throughout the EU. It is not yet clear if fiscal policy will coincide with monetary policy to reduce deflationary risks. There is again an increasing risk of debt restructuring of some countries.

LEVEL

- High
- Medium
- Low

TREND

- ↑ Increasing
- Stable
- ↓ Decreasing

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

Other reports

Besides regular reporting, the EBA also contributed to ad hoc studies. In line with Article 161(9) of Directive 2013/36/EU (CRD), the EBA was mandated to produce a report on credit institutions' use of, and benefits from, ESCB central banks longer-term refinancing operations and similar central bank funding support measures. At the end of June 2014, the report was submitted to the EC and published on the EBA website. Furthermore, in cooperation with EU NCAs, the EBA produced a number of thematic studies on banks' business models, implications of regulatory measures for business models and the risks of cost cutting.

The EBA also makes use of market data, market intelligence and supervisory sources to provide information to its Board and other public authorities. For example, it produces weekly newsletters on liquidity and funding, and market development and the quarterly EU banks' performance reports.

EU-wide stress test

One of the key tasks assigned to the EBA is to initiate and coordinate an EU wide stress test in cooperation with the ESRB, the ECB, the EC, and the competent authorities from all relevant national jurisdictions.

The objectives of the exercise are to assess the resilience of banks in the EU to adverse economic developments; to help supervisors assess individual banks; to contribute to understanding systemic risks in the EU; and to foster market discipline. The EBA undertook such an exercise in 2014 based on common macroeconomic scenarios and a consistent methodology. It also provided unparalleled transparency into banks' balance sheets and the potential impact of severe but plausible shocks on them. The results of the stress test were published in October 2014.

One difference from the previous stress tests exercise was that for the first time, the partici-

pating banks had to undergo an AQR. This process was recommended in 2013 by the EBA to the competent authorities and the final results of the stress test brought more clarity to the supervisors, as well as more confidence to the market participants. It was also a major advantage for claiming comparability in the banks' stress test results. For the EBA, the AQR was a major step forward for its work on common definitions and comparability, since the exercise used the EBA's harmonised definitions of non-performing and forborne exposures.

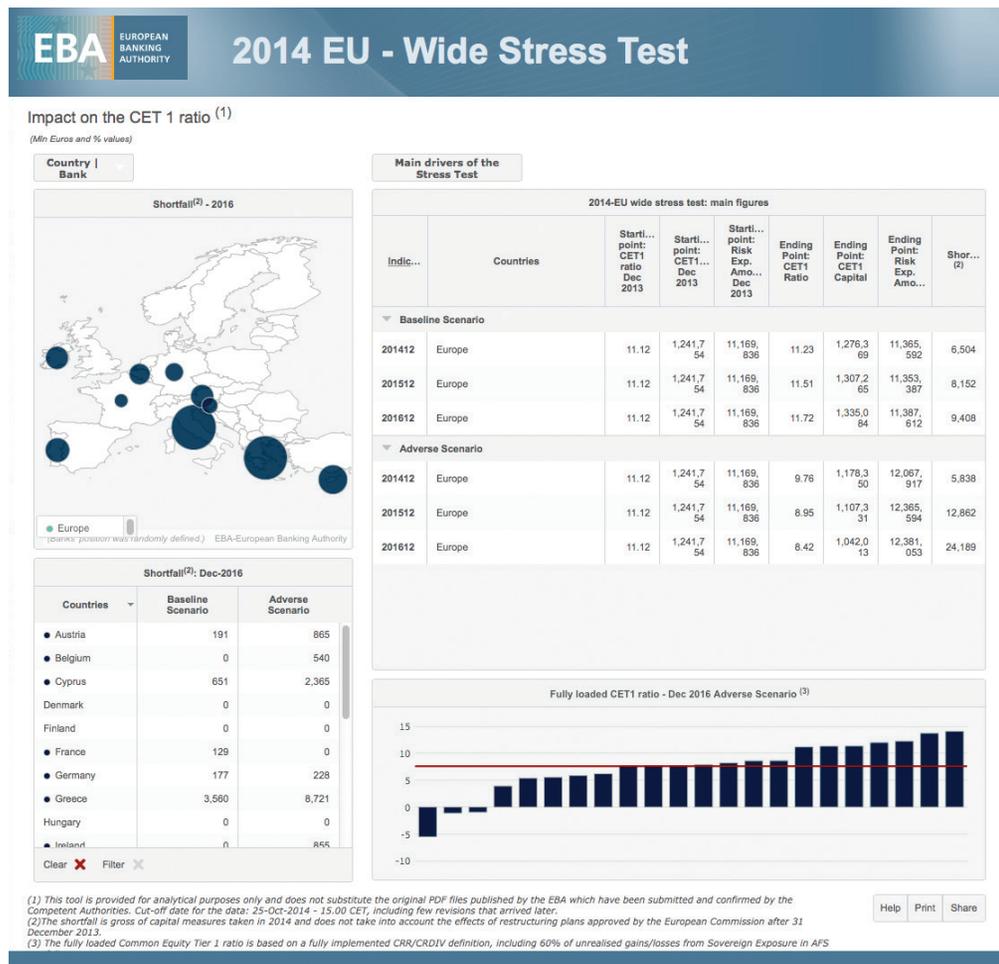
For the Eurozone alone, it has been estimated that in the AQR the use of harmonised definitions of non-performing exposures, (instead of the bank-specific definitions used by institutions) to identify problem loans and debt securities, resulted in an increase in non-performing exposures by EUR 55 billion or 40 % of the total increase in non-performing exposures.

For the stress test itself, the EBA developed a common methodology and played an important role in ensuring a comprehensive, consist-

ent, and comparable disclosure of the results. Moreover, although the quality assurance of the outcomes lay under the responsibility of competent authorities, the EBA assisted by compiling and sharing with them sets of statistical benchmarks as a tool to assess their banks' results. Final responsibility of identifying and implementing adequate supervisory actions to address the vulnerabilities identified in the exercise were left to the NCAs .

In the context of data gathering, the EBA collected and processed about 9.6 million data points for 123 banks, while it disclosed up to 12 000 data points for each bank involved. That amounted to more than one million data points published in aggregate, covering banks' composition of capital, RWAs, profit and loss (P&L), exposures to sovereigns, credit risk and securitisation. In addition, the EBA acted as a data hub for the dissemination of the results for the common stress test exercise and provided to the public a wide number of interactive and user friendly tools to facilitate the exploitation of the results.

Figure 20: Interactive tools for the 2014 EU-wide stress test



BOX 5 — 2014 EBA EU-wide stress test and AQR exercises

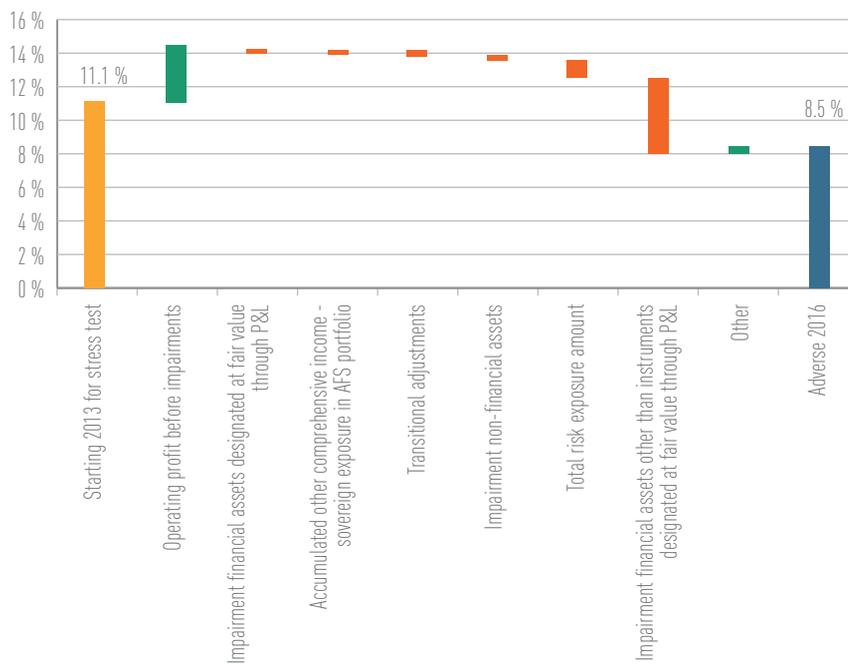
The 2014 stress test included 123 banking groups from across the EU and Norway with a total of EUR 28 000 billion of assets covering more than 70 % of total EU banking assets.

The impact of the stress test was assessed in terms of the transitional CRR/CRD IV CET1 Capital ratio for which a 5.5 % and 8.0 % hurdle rate were defined for the adverse and the baseline scenario respectively. The weighted average CET1 Capital ratio as of end 2013 was 11.1 % and in the adverse scenario it was projected to fall by approximately 260 bps mostly driven by credit losses.

24 participating banks fell below the defined thresholds leading to an aggregate maximum capital shortfall of EUR 24.6 billion. Nonetheless, the additional capital raised in 2014 by banks with a shortfall reduced the capital needs for those banks to EUR 9.5 billion and the number of banks with a shortfall to 14. The supervisory reaction for individual banks based on these results was the responsibility of competent authorities.

When concerning the capital preservation recommendation, the majority of the banks, 48 out of a list of 56 banks subject to the recommendation, reported a frontloaded CET1 ratio above the 7 %. This is the minimum required by the new regulatory framework on a fully loaded basis plus the capital conservation buffer. Two of the remaining eight banks had been waived from the floor requisite since they are under restructuring.

Figure 21: Drivers of the impact in CET1 Capital ratio from 2013 to 2016 in the adverse scenario



BOX 6 — The role of supervisory colleges in the AQR and Stress test

The AQR and EU-wide stress test exercises were important tasks for supervisors and supervisory colleges in 2014. The EBA developed a home-host protocol as guidance to assist relevant EU competent authorities in ensuring effective communication and coordination of the exercises in the framework of supervisory colleges. The objectives of the protocol were to keep all host supervisors informed throughout the process, to ensure the planning and coordination of work, and to ensure the exchange and discussion of results and subsequent supervisory actions, which the EBA staff monitored.

Based on the experience from previous stress tests, the EBA highlighted the importance for consolidating supervisors to inform college members on the outcome of the exercises, prior to the official publication of the results in view of the possible impacts of the publication of the results at local level. For all 'closely monitored colleges', and most of the 'colleges followed on a thematic basis', the AQR and stress test results were shared with the college members prior to their public disclosure.

During the EU-wide stress test, the EBA also monitored the compliance by banks with its July 2013 recommendation on the preservation of core Tier 1 capital. This recommendation was addressed to competent authorities with the aim of preserving banks' capital levels during the transition to the full implementation of the CRD/CRR package. Banks' compliance was assessed twice by the EBA, as of 30 June 2013, with data obtained from an ad hoc data collection, and as of 31 December 2013, as part of the 2014 EU-wide stress test. The EBA assessed not only the nominal levels of core Tier 1 capital compared to the minimum floor established in the recommendation ^[22] but also the common equity capital position of banks both on a CRD/CRR transitional and fully loaded basis. Complementing the latter, the EBA also assessed banks' projections and plans to get to the full implementation of the new capital rules

Macro-prudential work

Although the EBA's has a mainly micro-prudential regulatory role, it has also been mandated to provide opinion on macro-prudential matters. This task is mainly connected to giving feedback on the effectiveness of the implementation of macro-prudential tools for tackling systemic risks in specific sectors.

During 2014, following the implementation of the CRR/CRD IV, Member States already introduced various macro-prudential measures under the new framework and notified the EBA. The EBA was consulted by the EC on the macro-prudential rules in the CRR and CRD. The EBA answered this call for advice in 2014 with a report which assessed these rules against a set of defined objectives for macro-prudential policy. For the majority of measures, the EBA argued that the objectives were only partially achieved and therefore proposed a review of these measures.

²² That is 9 % of the June 2012 RWA plus the sovereign capital buffer as per estimated by the EBA December 2011 recommendation.

Work on shadow banking

In 2014, the EBA carried out a comprehensive study of the interpretation of the term 'credit institution' which is used in all key pieces of the Union banking legislation, including the CRD IV and the CRR, the BRRD and the SSM and SRM Regulations. The EBA also assessed the prudential treatment of those entities established in the Union which carry on credit intermediation, but are not 'credit institutions' or other specific forms of financial institution (i.e. those entities which are commonly known as shadow banks), to identify which, if any, prudential requirements are applied to such bodies under national law. The results of the study are set out in the EBA's Opinion and Report on the perimeter of credit institutions. ^[23]

^[23] Opinion and Report on the perimeter of credit institutions: <https://www.eba.europa.eu/-/eba-publishes-an-opinion-on-the-perimeter-of-credit-institutions>.

ONGOING ACTIVITY

In 2015, the EBA is planning to undertake a range of other work in relation to shadow banking, including the preparation of guidelines on exposure limits to shadow banking entities under Article 395(2) CRR. For the purposes of these guidelines the EBA has had to prescribe a definition of 'shadow banking entities' and proposes an approach in line with the EBA's Opinion and Report on the perimeter of credit institutions. The EBA is also contributing to work streams of the ECB and the ESRB in relation to shadow banking and to wider international work streams, in particular the BCBS Task Force on the scope of regulatory consolidation.

BOX 7 — Macro-prudential measures

On 1 April 2014, the EBA also received a notification (according to Article 458 CRR) from the National Bank of Belgium (NBB) of its intention to make use of stricter national measures for tackling macro-prudential and systemic risks in the country's mortgage markets. The proposed measure, that was part of a broader set of measures, included an increase to risk weights for retail exposures secured by Belgian residential immovable property for Belgian IRB banks by an add-on of five percentage points. The EBA did not object to the adoption of these measures, since they would increase the resilience of the Belgian banking sector; however, the EBA identified a number of issues to which it drew the Commission's attention in the form of an EBA Opinion, including the need for an evaluation of the adequacy of IRB models applied by credit institutions and the potential to apply institution-specific supervisory measures to avoid constant add-ons to risk weights that could penalise banks with more conservative credit standards or models. The EBA Opinion was submitted to the Council, the Commission and the NBB on 30 April 2014.

Consumer Protection and Financial Innovation

Developments in the markets for financial services in recent years have shown that failures in the conduct of financial institutions towards their customers can cause not only significant consumer detriment, but also severely undermine market confidence, financial stability and the integrity of the financial system. In order to address the causal drivers of conduct failure and in line with Article 9 of its regulation, the EBA continued in 2014 to promote transparency, simplicity and fairness of the market for consumer financial products or services across the internal market. The EBA monitored new and existing financial activities and adopted guidelines with a view of promoting the safety and soundness of markets and the convergence of regulatory practice.

According to its tasks envisaged in Article 9 of the EBA regulation, the EBA's work is separated into protecting consumers on the one hand and monitoring financial innovation on the other. The EBA helps to ensure that all consumers in the banking sector are treated fairly and protected from harm in a consistent way across the entire EU.



In protecting consumers the EBA focuses on payments, pre-sale, point of sale and post-sale requirements. While financial innovation is an important part of markets the EBA works hard to recognise and monitor innovative products and services to ensure consumers, investors and depositors are protected. ^[24]

Protecting consumers

The EBA's consumer protection remit extends to all retail banking products that fall within its scope of action, this includes mortgages; personal loans; payment services, including credit/debit cards; deposits, including structured deposits; payment accounts and electronic money. In 2014, the EBA issued regulatory products across the life cycle of the product, i.e. at the pre-sale, point of sale, and post-sale stages of the interaction between the consumer and the financial institution.

Pre-sale requirements

The EBA has developed and consulted on detailed guidelines on product oversight and governance arrangements for retail banking products. These guidelines aim to address some of the causal drivers of failures in the conduct of financial institutions towards their customers that can cause not only significant consumer detriment but can also result in direct costs for financial institutions. The Guidelines are a result of redress and compensation pay-outs, penalties, fines, and loss of income and following the initial work carried out by the Joint Committee of the three ESAs 2013, The guidelines require the establishment of internal arrangements for the design, marketing and life cycle maintenance of products and are aimed at ensuring that products are designed to meet interests, objectives and characteristics of the target market. They apply to manufacturers of retail banking products as well as to distributors.

^[24] Please note that a number of products in this area have been developed jointly by the three ESAs, and are also mentioned under the section on cross-sectoral work, p. 75.

The requirements for manufacturers cover the manufacturer's internal control functions, identification of the target market, product testing, disclosure, product monitoring, remedial actions, and the selection of distribution channels. The requirements for distributors, in turn, cover the distributor's internal arrangements, identification and knowledge of the target market, and information requirements. The EBA aims to produce a feedback statement and finalise the guidelines in spring 2015.

Furthermore, and following a request received from the EC in May 2014, the EBA developed and consulted on a technical advice specifying the criteria and factors that the EBA and competent authorities should take into account when determining whether there is a significant investor protection concern with regard to structured deposits or a threat to the orderly functioning and integrity of financial markets. The work was based on the criteria identified by European Securities and Markets Authority (ESMA) for financial instruments, as the Markets in Financial Instruments Regulation (MiFIR) establishes an identical framework for the intervention powers for both ESAs. The technical advice was published in December 2014.

Finally, in December 2014 the EBA, ESMA and EIOPA also published a consultation paper on draft Joint Committee guidelines on cross-selling practices in the financial sector across the EU. The guidelines aim at indicating to competent authorities, through high-level principles and practical examples, ways to ensure that firms can comply with the general conduct of business standards toward customers that are expected of firms in the context of cross-selling practices. The ESAs are expecting to finalise the feedback statement and the final guidelines later in 2015.

Point of sale requirements

The EBA also commenced work in the area of payment accounts. The EBA has been given four mandates in the Payment Accounts Directive (PAD) which relate to the most representative services of a payment account that are subject to a fee; standardised terminology, and two new types of informative documents to be developed for the benefit of EU consumers: the Fee Information Document and the Statement of Fees. To that end and as a first step, the EBA developed and consulted on guidelines aimed at helping the competent

authorities to establish a provisional list of the most representative services of a payment account that are subject to a fee and offered by at least one payment service provider in their own jurisdictions. The guidelines identify how the competent authorities should apply the PAD provisions, what factors they should take into consideration, how they should report their list, and what supportive data they should obtain to identify the most representative services. (The EBA is expecting to publish the final guidelines in March 2015).

The EBA's continuous focus on mortgages resulted in the publication of a consultation paper on draft guidelines on creditworthiness assessments under the Mortgage Credit Directive (MCD) in December 2014. The guidelines are based on the EBA Opinion on Good Practices for Responsible Mortgage Lending published by the EBA on 13 June 2013, i.e. before the MCD was adopted, and which was reviewed by the EBA in 2014 when the guidelines were being developed. The guidelines establish requirements on the verification of the consumer's income; documentation and retention of information; identification and prevention of misrepresented information; assessment of the consumer's ability to meet his/her obligations under the credit agreement; allowance for the consumer's committed and other non-discretionary expenditures; allowance for potential future negative scenarios; and identification of groups of loans with higher risk profiles. The EBA expects to publish the final guidelines before the summer of 2015. These guidelines would apply from the transposition date of the MCD of 21 March 2016.

As part of their mandates to protect investors, depositors and policyholders, EBA, ESMA and EIOPA through the Joint Committee of the ESAs have analysed the practices employed by some financial institutions to comply with the new EU capital rules and requirements. These practices concern institutions engaging in 'self-placement', i.e. placing with their clients financial instruments that they, or their group companies, have issued and that are eligible to comply with specific prudential requirements. To that end, in July 2014, the ESAs issued a reminder to financial institutions across the EU about their responsibility to comply with rules governing conflicts of interest, remuneration, provision of advice and suitability and appropriateness of products.

Also as a part of the Joint Committee work, the ESAs published in December 2014 a discussion Paper on Key Information Documents (KIDs). The ESAs are mandated to develop an investor-friendly KID to help retail investors in the EU better understand and compare packaged retail and insurance-based investment products (PRIIPs) across the EU. The discussion paper was a first step in the ESAs' joint work on the broad issues to be considered in developing regulatory technical standards under the Regulation on Key Information Documents for Packaged Retail and Insurance-based Investment Products (PRIIPs Regulation). The paper also includes a series of possible consumer-friendly information templates aimed at providing retail investors with clear and comparable information on the key features of investment products, including on what they might gain if they invest, the risks they are taking, and all the costs they will have to incur.

Post-sale requirements

In June 2014, as part of the efforts of the ESAs to bring further supervisory convergence across the securities and banking sectors, the EBA and ESMA published the Joint Committee final report on guidelines for handling consumer complaints in the securities and banking sectors. It was developed on the basis of the existing complaints-handling guidelines established by EIOPA for the insurance sector. These guidelines are aimed at ensuring a consistent approach to complaints-handling across Member States of the EU and across the investment, banking and insurance sectors. These guidelines will allow consumers to refer to a single set of complaints-handling arrangements, irrespective of what type of product they have purchased or in which EU Member State they have purchased it. The guidelines will also allow firms, many of which sell products from more than one sector across the EU, to streamline and standardise their own complaints-handling arrangements. National regulators too will be able to supervise the same harmonised requirements across all sectors of financial services in their own jurisdictions.

As a part of the EBA focus on payment services and cooperation with the ECB, the EBA issued final guidelines on the security of internet payments. These guidelines are based on

the recommendations of the European Forum on the Security of Retail Payments (SecuRe Pay), a voluntary cooperative initiative set up by the ECB and comprising relevant authorities from the EEA with the aim of facilitating understanding of issues related to the security of electronic retail payment services.

These guidelines establish a set of minimum requirements in the field of the security of internet payments and build on the rules of the Payments Services Directive (PSD) concerning information requirements for payment services and obligations of payment services providers in relation to the provision of payment services. In particular, they require that payment service providers carry out strong customer authentication in order to verify the customer identity before proceeding with an on-line payment, one of the key measures to prevent internet fraud. Payment service providers will also be required to provide assistance and guidance to their customers in relation to the secure use of internet payment services. The EBA published the final guidelines in December 2014 and NCAs are expected to comply with these guidelines by incorporating them into their supervisory practices and amending their legal framework or their supervisory processes accordingly as of 1 August 2015.

In December 2014, the EBA published a consultation paper on draft guidelines on arrears and foreclosure under the MCD. The guidelines are based on the provisions of the Opinion of the European Banking Authority on Good Practices for the Treatment of Borrowers in Mortgage Payment Difficulties, which was published on 13 June 2013, i.e. before the MCD was adopted, and which was reviewed by the EBA when developing the guidelines. As a result, only relevant provisions within the Opinion were considered for these guidelines. They establish requirements on policies and procedures; engagement with the consumer; provision of information and assistance to the consumer; resolution process; and documentation of dealings with the consumer and retention of records. The EBA expects to publish the final guidelines in summer 2015 and they would apply from the transposition date of the MCD of 21 March 2016.

In June 2014, the EBA finalised and submitted to the EC the final draft RTS on the minimum

monetary amount of Professional Indemnity Insurance (PII) or comparable guarantee for mortgage credit intermediaries and fulfilled the first consumer protection mandate it has received from the EU institutions, which was provided for in Article 29 of the MCD. The RTS set the minimum monetary amount of the PII or comparable guarantee for mortgage credit intermediaries by specifying an amount for each individual claim (EUR 460 000) and an aggregate amount per calendar year for all claims (EUR 750 000). Based on the RTS, the EC adopted a delegated regulation (EU) No 1125/2014 on 19 September 2014 and published in the Official Journal of the European Union on 24 October 2014.

Monitoring financial innovation

After issuing a warning on a series of risks deriving from buying, holding or trading virtual currencies such as bitcoins in December 2014, the EBA further investigated whether virtual currencies can and ought to be regulated. In the Opinion the EBA published in June 2014, it assessed the potential benefits of virtual currencies, such as faster and cheaper transactions, financial inclusion as well as contributions to economic growth; and also identified more than 70 risks for users and market participants, risks related to financial integrity, such as money laundering and other financial crimes, and risks for existing payments in conventional currencies.

The causes for these risks were also investigated by the EBA. These include that a virtual currency scheme can be created — and its function subsequently changed — by anyone, and in the case of decentralised schemes, such as bitcoins, by anyone with a sufficient share of computational power, and anonymously so. The EBA also added that individu-

ONGOING ACTIVITY

In 2015, the EBA will continue with the implementation of the mandates conferred on it in the PAD. It will also finalise the draft guidelines on which it had consulted in the previous year, on the product oversight and governance; creditworthiness assessments for mortgage borrowers; and arrears and foreclosure. Further work will focus on remuneration requirements for staff that interact with consumers.

als validating transactions (so-called miners) can also remain anonymous, and so can payers and payees; IT security cannot be guaranteed; and the financial viability of some market participants remains uncertain.

Based on this assessment, the EBA concluded that a regulatory approach to address these risks would require a substantial body of regulation, some components of which would need to be developed in more detail. In particular, a regulatory approach would need to cover governance requirements for several market participants, the segregation of client accounts, capital requirements and, most importantly, the creation of 'scheme governing authorities' accountable for the integrity of a particular virtual currency scheme and its key components, including its protocol and transaction ledger. Such a framework is best developed by the Commission, Parliament and Council, which is why the EBA Opinion is primarily addressed to them and outlines the elements that such a framework should comprise.

However, considering that it would take some time to develop such a regime, and that some of the risks have already materialised, the EBA

ONGOING ACTIVITY

The EBA will continue to monitor innovative products or innovative uses of existing products to ensure that consumers, investors and depositors are protected; and that the financial system is stable and effective. In accordance with the Regulation on MiFIR, the EBA will also monitor the market for structured deposits which are marketed, distributed or sold in the Union.

also addressed the Opinion to national supervisory authorities advising them to discourage requiring regulated credit institutions, payment institutions and e-money institutions from buying, holding, or selling virtual currencies. This two-pronged approach will allow virtual currencies schemes to develop outside the financial services sector and will also allow financial institutions to maintain a current account relationship with businesses active in the field of virtual currencies.

The EBA also carried out an analysis of lending-based crowdfunding, including identification of risks to participants in this market, such as lenders, borrowers and platform providers. The EBA specifically looked into the type of regulation that would be required in order to drive confidence in this new market segment and it reviewed present business models in the sector. It concluded by considering the extent to which the identified risks are already addressed in existing EU directives and regulations and national regulatory frameworks. (The EBA Opinion is expected to be published in February 2015).

Additional activities

In February 2014, the EBA published its annual consumer trends report. The report built on the findings outlined in the 2013 edition of the report, providing a review of the actions the EBA has undertaken since then, and identified the key areas of concern, analysed the trends and described the approaches that the EBA would take in 2014 for its work on consumer protection. In December 2014, the EBA also published a discussion paper proposing to formalise the passport notifications for credit intermediaries that competent authorities will be responsible for from the transposition of the MCD on 21 March 2016. These requirements aim to ensure there is a consistent approach to the information shared on the provision of services and the establishment of branches, as well as the transmission of notifications, the registrations and the notifications of changes. The EBA expects to publish the final requirements in the course of 2015.

Finally, jointly with EIOPA and ESMA, the EBA organised the second Joint ESAs Consumer Protection Day in June 2014 in London.

ONGOING ACTIVITY

As in previous years, the EBA will prepare its annual consumer trends report, publication of which will precede the publication of the EBA's Work programme for 2016.

The EBA will, jointly with ESMA and EIOPA, co-organise the Joint ESAs Consumer Protection Day 2015, which will be held on 3 June 2015 in Frankfurt am Main.

As part of the Joint Committee work, the ESAs will continue to implement the mandates given to them in the PRIIPs Regulation related to the content and presentation of the KID; will start work on automated financial advice tools, i.e. the algorithm-based tools that consumers use when buying products without human intervention. The ESAs will also finalise the guidelines on cross-selling practices in the financial sector.

Cross-sectoral work, external relations and Communications

The EBA works closely with other ESAs in the context of the Joint Committee. It also provides technical advice to the Commission and regularly interacts with the European Parliament and Council to which the EBA is accountable. In addition, the EBA's press and communications function ensures all parties concerned with the work of ESAs are kept fully informed of points of interest or concern.



Overview of cross-sectoral work in the context of the Joint Committee of the ESAs

In 2014, the Joint Committee continued its work as a forum for cross-sectoral coordination and exchange of information between the ESAs. Under the chairmanship of the EBA in 2014, the Joint Committee focused in particular on the subjects of cross-sectoral risks, including conduct of business risk, and on consumer protection.

Analysis of cross-sectoral risks

The Joint Committee produced two joint reports focused on identification of key cross-sectoral risks and vulnerabilities in the EU financial system, which were submitted to the March and September meetings of Economic and Financial Committee of the Council (EFC-FST) and the ESRB, and subsequently published on the websites of the ESAs.

The key risks identified included prolonged weak economic growth in an environment characterised by high indebtedness, intensified search for yield in a protracted low interest rate environment, and uncertainties in emerging market economies — all reflected in the methodologies applied in the 2014 EU-wide stress test exercises for banks and insurance companies. In addition, the Joint Committee started to work on the topic of conduct of business risk and IT/cyber risks which have become ever more prominent in 2014.

The Joint Committee started analysing conduct of business risk, including operational and governance issues, identifying possible common EU policy responses and level playing field issues, including on sanctioning and enforcement as well as other applicable supervisory actions.

Consumer protection ⁽²⁵⁾

In the area of consumer protection, the work conducted has focused around a major regulatory mandate on PRIIPs, for which the main deliverables are expected to come to maturity in 2015 and 2016. In this context, the Joint Committee published in November 2014 a Discussion Paper on KIDs designed to help retail investors in the EU better understand and compare PRIIPs across the EU as a first major step of their work. In addition, three other major products were finalised: (i) the common Guidelines on complaints handling, enabling EU consumers to refer to a single set of complaints handling arrangements, irrespective of the type of product or service or the geographical location of the firm in question; (ii) a reminder to financial institutions regarding placements of own instruments with retail customers, reminding financial institutions across the EU about their responsibility to comply with rules governing conflicts of interest, remuneration, provision of advice and suitability and appropriateness of products; and (iii) common principles on product oversight and governance.

⁽²⁵⁾ See also the section on Consumer protection and financial innovation on p. 70.

To further reach out to consumers of financial services, retail investors and other stakeholders, the ESAs organised a second Joint Consumer Protection Day, which was held on 4 June 2014 in London. The Joint Consumer Protection Day gathered more than 300 consumer representatives, academics, legal and financial consultants, national supervisors, experts from EU and national institutions and the financial services industry to discuss and exchange views on (i) product oversight and governance, (ii) behavioural economics/finance, (iii) cross-selling and (iv) financial innovation.

In addition, a Consultation Paper on draft Guidelines on Cross-Selling practices was published on 22 December 2014, work that is to be continued in 2015. These guidelines establish a coherent and effective approach to supervising firms that offer cross-selling options, so as to enhance protection of EU customers.

Financial conglomerates

The Joint Committee published Joint ESAs guidelines on the consistency of supervisory practices for financial conglomerates, on 22 December 2014, developed in accordance with Article 11(1) of the Financial Conglomerates Directive (Directive 2002/87/EC). These first guidelines aimed to clarify and enhance the cooperation between EU competent authorities in order to achieve a supplementary level of supervision of financial conglomerates. The areas covered by these guidelines included the mapping of the financial conglomerate structure and written agreements; the coordination of information exchange, supervisory planning and coordination of supervisory activities in going concern and emergency situations; the supervisory assessment of financial conglomerates; and other decision-making processes among the competent authorities.

On 18 December 2014, the Joint Committee submitted to the EC a joint draft RTS on risk concentration and intra-group transactions, in accordance with the Joint Committee's mandate under Article 21a(1a) of the Financial Conglomerates Directive. The draft RTS aimed to clarify which risk concentration and intra-group transactions should be considered as significant. They provided clarification on what coordinators and other relevant competent authorities shall take into account when

defining thresholds, periods for reporting and monitoring significant risk concentration and intra-group transactions, and provide a list of supervisory measures to be taken into account.

In addition, the Joint Committee published its updated 2014 list of identified Financial Conglomerates in October 2014. The list shows 71 financial conglomerates with the head of group in an EU/EEA country, one with the head of group in Australia, two with the head of the group in Switzerland, and two with the head of group in the United States.

Anti-money laundering

With regards to anti-money laundering and counter financing of terrorism, the Joint Committee submitted a Report on reasonable grounds to the EC in April 2014, containing a micro-survey on Member States' supervisory practices regarding agents of payment institutions authorised in other Member States. The report investigates the circumstances that could be regarded as 'reasonable grounds' for host supervisory authorities to reject the registration of an agent or the establishment of a branch and what practical constraints Member States have experienced in that respect. Moreover, the Joint Committee continued to work on the preparation of the regulatory mandates required by the envisaged revision to the AMLD.

ONGOING ACTIVITY

The AMLD and AMLR are likely to enter into force in 2015. Both the Directive and the Regulation mandate the EBA, ESMA and EIOPA to develop RTS and guidelines on key aspects of Europe's AML/ Counter Terrorism Financing (CTF) regime. The Directive also requires the ESAs to provide a joint opinion on the money laundering and terrorist financing risks affecting the internal market and to receive notifications on a number of issues. The work is already underway on two sets of guidelines and one set of RTS, with a view to publishing these for consultation in late 2015.

Securitisation ^[26]

With regard to securitisation, the Joint Committee started work to identify any inconsistencies of the existing level-1 and level-2 due diligence, disclosure and reporting requirements concerning structured finance instruments. The Joint Committee is expected to develop a report on the inconsistencies found and possible solutions addressing such inconsistencies in the first half of 2015.

Mapping of ECAIs' credit assessments

The ESAs have also continued to work on developing the ESAs' joint draft ITS on the mapping of External Credit Assessment Institutions' (ECAIs) credit assessments (under Article 136(1) and (3) of CRR Regulation). The draft ITS aim to specify for all ECAIs the correspondence ('mapping') between risk weights and credit assessments (via credit quality steps) as well as factors and benchmarks. A Consultation Paper on the draft ITS was published in February 2014 and was followed by an addendum, including a number of individual mapping reports of all relevant ECAIs, which was published in October 2014.

Reducing over-reliance on credit ratings

In accordance with the Credit Rating Agencies Regulation (CRA 3), the ESAs have reviewed all their existing guidelines and recommendations in order to identify, and where appropriate remove, references to external credit ratings that could trigger sole or mechanistic reliance on such ratings. Of the three ESAs, only ESMA identified a guideline (on Money Market Funds) that should be subject to changes. The final report was published in February 2014 and contains a definition aimed at harmonising the different interpretations of 'sole and mechanistic reliance' in the ESAs regulations and guidelines, and includes the amendments to ESMA's guidelines on Money Market Funds according to the definition provided.

From February 2014, the ESAs has worked on the finalisation of a report which aims to identify general principles on contractual reliance on ratings by financial intermediaries. In this context, a Discussion Paper was published in December 2014, focusing on the degree of contractual reliance on credit ratings by competent authorities and on their recourse to alternative means of creditworthiness assessments.

Addressing risks related to non-centrally cleared OTC derivative contracts ^[27]

The three ESAs consulted in mid-2014 on draft RTS outlining the framework of the EMIR. These draft RTS laid down the methodologies for the determination of the appropriate level of margins, the criteria that define liquid high-quality collateral, collateral haircuts, concentration limits and intragroup transactions. To avoid regulatory arbitrage and to ensure a harmonised implementation, these draft RTS have been drafted considering the framework for margin requirements for non-centrally cleared derivatives issued by the BCBS and the International Organisation of Securities Commissions (IOSCO) in September 2013. The aim is to submit the final draft RTS to the Commission in 2015.

Benchmark setting

Regarding benchmark setting, the ESAs continued to monitor the implementation of the EBA-ESMA recommendations addressed to Euribor-EBF in January 2013 and published a report on the review of the implementation of these recommendations in February 2014. The FSB's Official Sector Steering Group (OSSG) finalised its review of major interbank benchmarks, including Euribor, and its consideration of contingency issues and review analysis on alternative benchmarks by the Market Participant Group. The EBA and ESMA participated in this work.

^[26] Further information on the EBA work in this area can be found in the section on 'Work on securitisation and covered bonds', p. 40.

^[27] Further information on EBA work in this area can be found in the section on 'Counterparty risk, margin requirements and market infrastructure', p. 31.



Acquisitions and increases of holdings in the financial sector

The EC issued in February 2013 its report on the Directive on acquisitions and increase of holdings in the financial sector (2007/44/EC) which identified some shortcomings in the application of the Directive and requested the ESAs jointly review their 2008 Guidelines to ensure a common, uniform and consistent application of the Directive. As a follow up to the Commission's request, the Joint Committee established a Task Force to review and update the 2008 Guidelines. The Joint Committee plan to consult on the revised Guidelines in spring 2015.

Follow up to the review of the European System of Financial Supervision

The Joint Committee published a revised version of its Rules of Procedure in December 2014 ^[28], following the publication of the European Commission's report on the review of the ESFS in August 2014, taking into account the recommendations made in the ESFS report.

Board of Appeal of the ESAs

The ESAs continued to provide operational and secretarial support to the Board of Appeal. The Board of Appeal worked and decided on two appeal ^[29] cases in 2014 and finalised one appeal case lodged in 2013.

^[28] Joint Committee: Rules of Procedure (revised version November 2014) <http://www.eba.europa.eu/documents/10180/15736/JC+DC+2014+001+%28Revised+Joint+Committee+Rules+of+Procedure%29.pdf>

^[29] Board of Appeal decisions: <http://www.eba.europa.eu/about-us/organisation/joint-board-of-appeal/decisions>

External relations of the EBA

The EBA and EU institutions and bodies

The EBA is accountable to the European Parliament and to the Council and is required to interact with them in the context of the accountability obligations.

In 2014, the EBA participated at meetings of the Financial Services Committee of the Council on a regular basis, where it provided regular updates on financial market developments, its perspective on banking risks, the 2014 EU-wide stress test exercise and presented ad hoc papers to steer discussion on important topics (such as on treatment of covered bonds in relation to liquidity, and on simple, standard and transparent securitisation).

The EBA was invited to several meetings of the Economic and Financial Committee of the Council, including the Financial Stability Table meetings, which take place twice a year. On behalf of the ESAs' Joint Committee, the EBA presented its semi-annual cross-sectoral risk reports at both meetings. Furthermore, the EBA was invited to participate at a few meetings of the ECOFIN Council, to contribute to discussions on accounts of the SSM, the SRB, and EU-wide stress testing, inter alia.

The EBA was also invited to the hearing of the Economic and Monetary Affairs (ECON) Committee of the European Parliament in September 2014, where the ESAs Chairpersons updated the parliament on the activities of the ESAs in the past year and responded to questions of its Members.

The EBA regularly provides advice, opinions and reports to the EC, and submits all its draft Technical Standards to the Commission for final endorsement. Further the Commission also participates at the EBA's BoS, where it is a non-voting member, providing there are no discussions of individual credit and/or financial institutions. The EBA has been in contact with the Commission in particular in the context of its regulatory role: in 2014, the EBA submitted 32 technical standards to the Commission (22 RTS and 10 ITS) in various areas, including credit and market risk, liquidity, leverage, recovery and resolution framework, joint decisions and functioning of colleges, and provided 6 opinions and advice to the Commission on several topics. The EBA

has been in contact with the Commission in relation to other EBA tasks, such as supervisory reporting, stress testing exercise, and oversight mandates in the Banking Recovery and Resolution framework.

Following the entry into office of the new Commission on 1 November 2014, and the resulting reorganisation of the Commission's services, the relations with the ESAs have fallen under the remit of the newly created Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA) (and of the Directorate-General for Justice and Consumers (DG JUST) in relation to corporate governance and remuneration).

The EBA is subject to various audits by the European Court of Auditors, including regular audits in relation to implementation and control of the budget, as well as ad hoc audits assessing the EBA's performance in specific areas.

In July 2014, the European Court of Auditors published a Special Report on the performance of the EBA during the financial crisis. The results of the audit confirmed the EBA had successfully provided the elements of a new regulatory and supervisory system for the banking sector, taking into account its resources and limited legal powers. The report identified some shortcomings in cross-border banking supervision, the assessment of the resilience of EU banks, and the promotion of consumer protection, and highlighted lacks in the EBA's authority to make or enforce decisions on supervisory convergence, as well as limitations in its legal mandate and staff to conduct the 2011 EU-wide stress tests.

The EBA has been closely cooperating with the ESRB and has been closely involved in the work of the ESRB, on all its levels. The EBA Chairperson was the second Vice Chair of the General Board in 2014, the main decision-making body of the ESRB, in the context of EBA Chairmanship of the Joint Committee of the ESAs in 2014, and was also a Member of the ESRB's Steering Committee. EBA staff are also involved in a number of ESRB work streams, such as on stress testing, macro-prudential measures and policy, sovereign exposures, conduct risks of banks, shadow banking, interconnectedness, sectoral risks, countercyclical capital buffers, etc. The most notable topics on which the EBA and the ESRB closely cooperated in 2014 included the EU-

wide stress testing exercise and the development of the scenario for the banking sector, analysis on systemic aspects of conduct risk of banks, recommendation on funding of credit institutions, macro-prudential measures and policies, analysis of developments in Ukraine and others.

In line with the ESRB Founding Regulation, the ESRB has a competence to issue recommendations to various addressees, including to the EBA, subject to comply-or-explain follow up procedure. In 2012, the ESRB issued Recommendation 2012/02 on the funding of credit institutions, with numerous sub-recommendations addressed to the EBA with deadline due in 2014. The EBA undertook considerable work to ensure compliance with the ESRB guidelines, which resulted, for example, in identification of best practices in relation to covered bonds across the EU, and development of guidelines on disclosure of encumbered and unencumbered assets, and on harmonised definitions and templates for funding plans.

The EBA has maintained close contacts with the ECB, in particular with DG-Statistics on data and reporting related issues. The EBA has participated in a number of working groups and task forces in this regard. The EBA has also established good operational relationships with the ECB/SSM and has cooperated closely with the ECB/SSM, in particular in the context of coordination of the EU-wide stress testing (where ECB and other NCAs were responsible for the quality assurance process, definition of additional sensitivities, and supervisory reaction function), as well as in relation to the development of Single Supervisory Handbook, and reestablishment of colleges. The ECB/SSM is represented as a non-voting member at the EBA's BoS, and the EBA Chairperson can be invited by the Chair to participate in meetings of ECB/SSM's Supervisory Board as an observer.

The EBA has also been an observer at the European Financial Reporting Advisory Group (EFRAG), which provides input into the development of IFRS and technical advice to the Commission on accounting matters, and in this context the EBA has participated in the EFRAG Board and its Technical Expert group. In the context of the EBA work on auditing and financial reporting, the EBA has also participated as observer in the Accounting Regulatory Committee (ARC) established under the EC.

Also, the EBA participated in the Network of Agencies, which provides a forum for exchanging views and experiences on issues of common interest and new developments in the EU Agencies.

The EBA and international dialogues

Outside meetings with EU stakeholders, the EBA has been in regular contact with third countries' regulatory and supervisory authorities, think-tanks and international financial standard setters.

The EBA has participated on a regular basis in the European Commission's financial markets regulatory dialogues, providing technical advice and support to the Commission, including dialogues with the United States and Japan.

The EBA has also held bilateral supervisory and regulatory discussions with relevant authorities in the United States (Financial Accounting Foundation, Financial Accounting Standards Board, Treasury), Japan (Bank of Japan), and Australia (European Australian Business Council, Australian Financial System Inquiry).

The EBA has been in close contact with the EEA countries (Iceland, Liechtenstein and Norway), and Switzerland. Representatives of the EEA countries are invited to the EBA's BoS meetings as observers, and are also part of selected EBA groups and institutional sub-structures. The discussions in 2014 focused in particular on the issue of incorporation of ESAs Regulations into the Agreement on the European Economic Area, which provides for the inclusion of EU legislation on the Single Market to the EEA countries.

The EBA and international bodies

The EBA has been directly involved in the work of several international bodies. It has participated at meetings of the BCBS, some of its expert sub-committees (the Policy Development Group and the Supervision and Implementation Group), as well as in several specialist working groups and task forces, such as on capital, liquidity, leverage ratio, accounting, large exposures, risk measurement, ratings and securitisations, trading group, margining rules, colleges, Pillar 2, weak banks, disclosures, macro-prudential supervision,

banking book, and impact assessment. It has also been involved and participated at the missions in the context of the Regulatory Consistency Assessment Programs.

The EBA has also co-chaired the Task Force on the Scope of Regulatory Consolidation and Task Force on Prudential Treatment of Assets, and has also participated at the meetings of the Group of Governors and Heads of Supervision, the oversight body of the Committee.

The EBA has been participating in some of the work streams of the FSB, including its Cross-Border Crisis Management Group (coordinating the development and implementation of recovery and resolution procedures for designated SIFIs), Resolution Steering Group (leading the FSB's work on resolution and resolution planning), Official Sector Steering Group (focusing on the reform of interest rate benchmarks, including Euribor), and Data Gaps Implementation Group (developing a common data template for global systemically important banks). EBA has also cooperated with the International Monetary Fund (including the Working Group on Financial Stability Indicators), and Institute of International Finance.

Press and Communications Activities

The EBA's press and communication activities focused on ensuring that all parties concerned by the work of the Authority's BoS were correctly and timely informed of any points of interest or concern. The EBA and its counterparts at supervisory authorities have a key role in ensuring consistent messages are sent out to all stakeholders across the EU.

In the course of 2014, the EBA focused heavily on coordinating activities concerning the 2014 EU-wide stress test with the objective of promoting clarity and understanding of the Authority's role and objectives. The communications activities were devised in close coordination with all competent authorities at national level, including the ECB which commenced its new role as single supervisor of Euro-zone banks in November 2014. The approach relied on the help of media to ensure proper reach-out to all concerned stakeholders across the entire EU. A series of technical briefings, aimed at ensuring that roles and processes in the context of the stress test, were organised to correctly explain roles to

the widest number of media across the EU. Briefings were organised ahead of all important announcements and these briefings exhaustively covered all key aspects of the exercise, from the methodology to the sample of banks, timeline, disclosure templates and finally the results. On the day of publication, the EBA acted as the central data hub, releasing one single set of data for all the EU banks participating in the exercise.

In order to facilitate understanding of the stress test, its purpose as an exercise, as well as how to read the results, a series of communication tools were developed by the EBA, from press releases and FAQs to infographics and videos issued on the EBA website. These were also made available to those national authorities that wanted to use them at national level.

In October 2014, the EBA launched its Twitter and YouTube channel. This coincided with the publication of the results of the 2014 EU-wide stress test.

In addition to sections added for the 2014 EU-wide stress test, many other new sections were added to the EBA website including a new interactive Single Rulebook tool. The inclusion of this new online tool allows users navigate the Single Rulebook on the EBA website in an interactive manner, showing how the EBA standards and guidelines relate to a specific mandate set out in the Level 1 EU legislative text (CRD IV/CRR) as well as to Q&As submitted through the Q&A tool. The tool will also include the BRRD as soon as it enters into force in 2015.

In the course of 2014, the EBA also kick-started its work aimed at streamlining communication activities and ensuring correct delivery against stakeholders' expectations. A survey of a representative stakeholders' sample was carried out as a departure point for a reasoned revision of communication activities which resulted in a strategic paper defining future priorities for communications at the EBA.

In parallel, communication activities continued to provide information and visibility on the ongoing work of the EBA, as well as to relevant deliverables that were deemed more relevant to public interest. These covered a range of deliverables, from technical standards and guidelines to reports and other papers.

Moreover, the EBA organised a series of regular events aiming at promoting exchange with and gathering feedback from stakeholders. Amongst others, for example:

- A policy research workshop, which brought together leading economists from supervisory authorities, as well as top-academics; to discuss on how to measure the riskiness of banks in a consistent manner.
- The second the Joint ESAs Consumer Protection Day, organised by the EBA (in conjunction with the other ESAs), was held on 4 June 2014 in London. The event brought together consumers, regulators and industry participants to discuss consumer protection-related issues in the financial services area in the EU. ^[30]

Finally, ongoing support and advice were provided through communication activities for the participation of EBA experts in events and roundtables across the EU; by coordinating logistics, and preparing briefings and speaking points.

In all its activities, the communications activities at the EBA endeavoured to illustrate the progress made in restoring market confidence in the EU banking system, as well as the remaining challenges.

^[30] See also the section on Consumer protection and financial innovation on p. 70.

Operations

There was a considerable range of internal operational matters which the EBA dealt with in 2014. This included legal support, the implementation of a new project management tool, data protection activity, and financial and human resources management, as well as information technology and internal controls.

Management Board (MB)

Pursuant to the EBA's founding regulation, the MB ensures that the EBA carries out its mission and performs the tasks assigned to it. The MB is composed of the EBA Chairperson and six other members of the BoS elected by and from the voting members of the BoS. The Executive Director and a representative of the European Commission participate in meetings of the MB without the right to vote.

Upon expiry of their first term, two members of the MB were re-elected in December 2014 to serve a second mandate. One member represents a participating SSM Member State whereas the second comes from a non-participating SSM Member State. In accordance with the EBA founding Regulation, four participating and two non-participating SSM Member States must be represented in the MB. Furthermore, this representation must be balanced and proportionate and must reflect the Union as a whole.

In 2014, the MB met five times at the EBA premises in London, and held one conference call. During these meetings, it took important organisational decisions affecting the EBA and held strategic discussions which supported the BoS' ultimate decisions. The conclusions of the MB meetings are published on the EBA website.

Legal support

In 2014, the EBA dealt with legal issues related to the change of the seat of the Authority, human resources issues stemming from the Staff Regulations and the Conditions of Employment of other Servants, agreements with EBA suppliers, requests from EU bodies such as the European Court of Auditors and the European Ombudsman.

The EBA continued to provide internal legal support to the BoS, the MB, the senior management team and the core policy and operational functions. It dealt with requests relating to transparency and public access to documents. Within the remit of the Regulation (EC) No 1049/2001, the EBA provided its advice on three formal requests for access to information.

Maintaining high ethical standards is a key priority for the EBA. It is important in retaining the legitimacy of the Authority's role and in protecting the Authority's interests and reputation. Within this context, revised ethics guidelines for EBA staff, regardless of grade or category, and a new Conflict of Interest Policy for EBA Non-Staff Members, which applies to Members of the BoS and their alternates, were developed.^[31]

In 2014, the EBA handled more than forty complaints received directly from individuals or legal persons of which most concerned a variety of consumer protection issues. Following their evaluation, some complaints have been identified as suitable for preliminary enquiry and have been investigated as to potential breach of Union law cases.

Finally, legal support was provided on any issues which could potentially give rise to litigation. The EBA also continued providing legal advice in order to manage cases of litigation at both administrative and judicial level and representing the EBA in legal disputes before the ESA's Joint Board of Appeal, the Court of Justice, the General Court and the Civil Service Tribunal.

^[31] Independence and Decision Making Processes for Avoiding Conflicts of Interests (Col Policy) for Non-Staff, see EBA website: <http://www.eba.europa.eu/about-us/legal-framework/decisions>

Implementation of Genius, a project management portfolio tool

The EBA successfully implemented a Project Portfolio Management Tool (PPM) providing an organisation-wide centralised database, coupled with a homogenised process, to assist the EBA's senior management and the EBA's Governing Bodies, with the planning, monitoring, management and prioritisation of the EBA's Work Programme.

The PPM tool allows for provision of statistical data, establishment of the performance of various mandates and prioritisation of mandates according to defined criteria. It also assists the EBA to match resource demand against resource capacity helping with efficient and effective planning and delivery of its regulatory mandates.

Data protection

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

Budgetary and financial management

Continuing improvement in the management and control of financial resources resulted in maximal budget execution for the current year budget and a significant reduction in normal carry-forward to next year.

The budget execution (total funds committed/total budget) in 2014 was 99.8 % for commitments (2013: 90 %) and 84 % for payments (2013: 75 %), which represents an important improvement compared to the previous year. The carry-forward at the end of 2014 represented 16 % of the funds committed, compared

to 17 % at the end of 2013, however fully half of the 2014 carry-forward is related to the office move that took place in mid-December. ^[32]

The quality of the work in the financial management area was also confirmed by audits performed in 2014. No major findings were identified, which may be attributed to the diligent follow-up of previously raised recommendations and the ongoing improvement of existing processes in the EBA.

The EBA took a number of steps to improve efficiency including in-house development of auto-updating budget reports, implementation of the Commission's e-prior electronic invoicing platform for DIGIT framework contracts and of mass payments for staff missions.

Human resources management

Following the publication of 69 selection procedures, the EBA received 1,850 applications and interviewed 173 candidates and recruited 41 temporary agents, 9 contract agents and 19 seconded national experts.

The total number of staff went up to 146 comprising 26 EU nationalities (compared to 24 in 2013) and the gender breakdown was 45 % female and 55 % male. The total staff turnover due to resignation, non-renewal, contract expiry or termination was 12.9 %. This was 4.03 % higher than 2013 when the total staff turnover was 8.87 %.

The EBA adopted a number of general implementing provisions to the new Staff Regulations and introduced a new policy on paid traineeship for young university graduates in October 2014. In December 2014, the EBA conducted a job screening exercise within the overall benchmarking exercise for EU agencies under the Framework Financial Regulation (FFR) with the aim to justify the administrative expenditure.

Following the common methodology all EBA establishment posts and all other types of statutory links or contracts linked to a jobholder at the EBA premises were screened. Overall, the results confirm the EBA's focus on

^[32] See the annex for more information on the 2014 budget execution and out-turn.

the allocation of resources to the core business areas, thus supporting the implementation of its mandate. In particular, the benchmarking exercise showed that 79.6 % of the jobs are "operational" (directly focused on the implementation of the EBA's mandate), 12.8 % include administration and coordination jobs, and 7.6 % are "neutral" jobs (financial management, accounting, control, auditing jobs). In addition, the results indicate that for each 4 posts focusing on the direct implementation of the EBA's mandate there is only 1 administrative post, which proves effective and efficient resource management.

Information Technology

In addition to maintaining and supporting production systems for data collection and general infrastructure, the EBA has implemented a number of projects in line with the approved IT strategy.

The EBA's IT functions and tasks can be clustered into three core domains; the harmonisation of banking supervision of the Single Market, the execution of banking supervision of systemic banks in the EU and the administration of the organisation. The fourth domain covers common IT services and provides a foundation for IT services required for the three core domains.

To enhance the comparability of regulatory information and to harmonise the regulatory standards in the EU, the EBA has implemented two releases of the European Supervisory Platform extending this financial and common regulatory framework to COREP 2.0.3 and FINREP 2.1.1. These versions include significant improvements in terms of data-exchange standards in XBRL taxonomies aligned with the ITS and security improvements of the application.

At the end of 2014, the platform of colleges was insourced to the EBA data centre and deployed on a more flexible architecture. This will allow the EBA to operate independently without the support of an external provider. The platform of colleges will support the secure information sharing and communication between supervisory colleges, which will promote the timely, efficient and comprehensive

information exchange within the colleges on the application landscape of the EBA.

The project Notification and Sanctions aims at providing the EBA and the competent authorities with a secured information workflow system from the NCAs to the EBA which will feed an EBA information database. The development of the real-time application infrastructure has proven to be stable and performant in testing. The project is in its testing phase go-live is planned in March 2015.

In the execution domain, the EBA enhanced, maintained and operated a technical platform during the year for gathering supervisory information. In a pan-European context, the regulatory reporting data of all systemic Pan-European Financial Institutions was collected, which allowed EBA users to analyse the data on the analytical platform.

In the common IT services domain, the EBA successfully completed a major IT infrastructure project that delivered the infrastructure related to the move of the EBA to the new premises in Canary Wharf.

The EBA enhances, maintains and operates the common IT services in accordance with the applicable IT policies of the EC and internal service requirements.

Assessment of audit results and the effectiveness of the internal control systems (ICS)

Compliance and effectiveness of ICS

In 2014, the EBA further developed and improved a series of internal measures to ensure that its activities are subject to control and in line with the Authority's objectives. The internal control measures helped ensure that the EBA's operational activities were effective and efficient, while also certifying that all legal and regulatory requirements were met, that financial and management reporting were reliable and that assets and information were safeguarded. In order to formalise the ICS, the EBA implemented a set of ICS which were adopted by the MB. These ICS are based on, and fully in line with, equivalent standards established by the Commission.

Internal Audit Service (IAS)

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

Following a review by the IAS of the European Commission (IAS) in 2013, of the ICS, the EBA has made significant progress in implementing the agreed action plan. Most notably, the Risk Management Process and Guidelines have been approved by EBA Management Board in November 2014.

In 2014, the IAS performed a limited review on the EBA's IT Project Management. Four findings were identified, and none of them were considered critical. The agreed action plan addressing these findings has already been fully implemented.

During 2014, no critical recommendations were issued or closed and on 1 January 2015 there was no open critical recommendation.

European Court of Auditors

The 2014 audit of the annual accounts was conducted partly by the European Court of Auditors and partly, for the first time, by an external audit firm. The external firm, PKF Littlejohn, was selected by reopening of competition between the eight contractors that are part of the Directorate-General for Budget (DG BUDG) framework contract BUDG/11/PO/03. PKF Littlejohn conducted the financial audit while the ECA focused on the legality and regularity aspects. The ECA issued an unqualified final opinion with one comment:

"Carry-overs of committed appropriations for title II (administrative expenditure) were high at 3 431 070 euro, i.e. 48 % (2013: 1 974 511 euro, i.e. 35 %) and mainly related to the Authority's move to its new premises in mid-December 2014."

Follow up of recommendations and action plans for audits

In the European Court of Auditors report, three preliminary observations were listed for follow-up from previous years. Of these, two were given the status of no longer applicable while the third, originating in 2012, was deemed as on-going:

"In order to cover higher school fees, the Authority grants staff whose children attend primary or secondary school an education contribution in addition to the education allowances provided for in the Staff Regulations. Total 2012 education contributions amounted to some 76 000 euro. They are not covered by the Staff Regulations and therefore irregular."

As at the end of 2014 the Authority had signed contracts with 15 of the 17 schools attended by children of staff members."

This observation was acknowledged by the discharge authority in its report on the 2013 EBA discharge.

Follow up of observations from the discharge authority

On 29 April 2015, the discharge authority granted discharge to the EBA Executive Director in relation to the implementation of the Authority's budget for the financial year 2013. The provisional text for the 2013 discharge (P8_TA-PROV (2015)0138) includes 27 paragraphs of observations, of which the bulk are either notes or acknowledgements, while only the following four constitute calls for action:

12. Welcomes the adoption of the Policy on Independence and Decision Making Processes by the Authority's BoS on 3 February 2015 and calls for a solid track record following the timely implementation of that Policy;

...

21. Underlines that the Authority's role in promoting a common supervisory regime across the single market is essential to ensure a better integrated, more efficient and safer banking sector in the Union, thus contributing to economic recovery and the creation of jobs and growth in Europe, and the prevention of future crises in the financial sector; calls for coordination of the Authority with the ECB, in its banking supervisory function, in order to avoid overlap and the build-up of excessive capacity;

22. Takes note of the Court's special report No 5/2014 and of the shortcomings outlined in it regarding the functioning of the new arrangements in respect of cross-border banking supervision, the assessment of the resilience of European banks and the promotion of consumer protection; urges the Authority, with respect to those parts of the Court's recommendations that are not exclusively addressed to the Commission or to Parliament and the Council, to take appropriate measures aimed at tackling those shortcomings;

...

26. Concludes that the Authority's mixed financing arrangement is inflexible, burdensome and a potential threat to its independence; calls therefore on the Commission, if it considers it appropriate according to its assessment, to propose by 2017 a financing system for the Authority solely based on the introduction of fees by market participants, or based on combining fees by market participants with basic funding from a separate budget line of the general budget of the Union;

As the observations have only been recently published, the EBA has not yet formulated its responses.

Key areas of focus for 2015

The EBA has an extensive schedule of work for 2015 which will further promote and safeguard the integrity and stability of the EU banking sector.

Among the areas of focus are RWAs, regulatory calibration on leverage and stable funding, regulatory monitoring of own funds instruments, remuneration and options and discretions. The EBA will finalise a number of regulatory products including the Deposit Guarantee Scheme and establishing resolution authorities.

Regulatory developments will include a review of the overall prudential treatment of investment firms, a report on small and medium-sized enterprises (SMEs), facilitating an effective dialogue between competent authorities supervising credit institutions and auditors and audit firms. The EBA will issue guidelines regarding shadow banking and develop draft RTS concerning consolidation of prudential regulation.

In addition, the EBA will focus on enhancing supervisory convergence, upgrading risk analysis tools, increasing the transparency of the EU banking sector and further increase its efforts on regulatory and supervisory convergence in the area of payments.



Work on RWAs

Promoting consistency of RWAs

The EBA outlined the next steps of its work as regards the consistency of RWAs in a discussion paper on the Future of the IRB Approach⁽³³⁾. It is agreed that besides the production of technical standards and guidelines on key aspects of the IRB models and its analytical work of divergences in RWAs (under Article 78 of the CRD), the EBA also intends to promote increased supervisory convergence and greater transparency.

In addition to data collection and running the benchmarking itself⁽³⁴⁾, further work in 2015 will focus on the consistency of supervisory approaches as regards to internal models.

The EBA will finalise the draft RTS on assessment methodology of the IRB Approach. This will establish specific requirements for competent authorities on the scope and methods of verification of all important aspects of the IRB Approach including the estimation of risk parameters, internal processes, governance, internal use of risk parameters and calculation of own funds requirements. The level of convergence of supervisory outcomes and consistency of internal models is expected to increase significantly.

In addition, the EBA will look at other aspects of the supervision of internal models such as the frequency of reviews and measures taken to address deficiencies as part of the obligations imposed under Article 78 of Directive 2013/36/EU in its ongoing work in colleges and other forums to promote consistency in supervisory approaches.

⁽³³⁾ Discussion Paper Future of the IRB Approach, available at <http://www.eba.europa.eu/documents/10180/1003460/EBA-DP-2015-01+DP+on+the+future+of+IRB+approach.pdf>.

⁽³⁴⁾ See the section on 'Fostering convergence and restoring confidence in the use of internal models', p.24.

The outcome of this analysis will serve as the basis for future development of guidelines in order to improve supervisory practices in this field.

As regards to transparency, the EBA will resume its assessment of Pillar 3 disclosures by banks, continue the disclosure of the risk parameters at the country level and assess the opportunity to run an ad hoc disclosure exercise (transparency exercise).

Regulatory calibration on leverage ratio and stable funding requirements

Calibration report on LR

Article 511 of the CRR mandates the EBA to report to the Commission by 31 October 2016 on a number of aspects related to the leverage ratio. One core question for the EBA is whether the leverage ratio should migrate to Pillar 1 and, if so, what the minimum level(s) should be especially taking into account business models and risk profiles. A considerable number of other aspects, such as interaction with the RWA based ratios and liquidity requirements as well as the impact on various segments of financial markets, shall also be analysed (see Article 511(3) and (4) CRR). On this basis, by 31 December 2016, the Commission will report to the Parliament and Council on the impact and effectiveness of the leverage ratio, together with a potential legislative proposal on the introduction of one or more levels of the leverage ratio (see Article 511(1) and (2) CRR).

Report on net stable funding requirements

Article 510 of the CRR mandates the EBA to report to the Commission by 31 December 2015 on the appropriateness of stable funding requirements for European institutions. This report is required to encompass both a methodology for determining the amount of stable funding available to and required by institutions for the calculation of such a net stable funding requirement and an assessment of its impact on the business and risk profile of

European institutions, financial markets, the economy and bank lending, with a particular focus on lending to SMEs, trade financing and pass through financing models.

Areas subject to regulatory monitoring

Monitoring of own funds instruments

The EBA will continue to issue updates to the initial CET1 list on a regular basis with new types of CET1 instruments being assessed against the criteria laid down on the CRR. In particular, the provisions on multiple dividends and preferential distributions laid down in the EBA final draft RTS on Own Funds (part IV) will be taken when they enter into force.

The objective of the EBA will be to promote harmonisation as well as preventing a deterioration of the quality of those instruments.

In 2015, the EBA will continue to exchange views with institutions and market participants on the results of this monitoring.

Collecting new data for the remuneration benchmarking report

The EBA will continue to collect data on staff that have received remuneration of one million euros or more in the previous financial year and to benchmarking remuneration practices and trends. The EBA will collect the data for 2014 in June 2015 and issue a benchmarking report before the end of the year. The report will analyse changes in the figures that result from the introduction of additional remuneration requirements and specific attention will be given to changes related to the limitation of the variable remuneration to 100 % of the fixed remuneration (200 % with shareholders' approval).

As part of its tasks to monitor and assess the developments in the area of remuneration, the EBA will also follow up on the actions taken by competent authorities regarding role based allowances. This will be in line with the findings of the EBA Opinion on the application of CRD IV regarding the principles on remunera-

tion policies of credit institutions and investment firms and the use of allowances published in October 2014. To this end, the EBA will collect information and analyse the responses received, informing the Commission about the results.

Monitoring options and discretions

According to Article 143 of CRD IV on supervisory disclosure, competent authorities shall publish information — among other things — on their 'manner of exercise of the options and discretions available in Union law'. For that purpose, and pursuant to Article 143(3), the EBA adopted in 2013 a technical standard specifying the format, structure, contents list and annual publication date of the supervisory information to be disclosed. This ITS was published in the EU Official Journal on 4 June 2014 ^[35].

The ITS on supervisory disclosure contains 12 templates on Options and national discretions: a general one, listing all CRD/CRR options and national discretions where competent authorities shall indicate if these OND are applied (Y), not applied (N), not applicable (NA) or to be confirmed (TBC) ; and 11 specific templates providing more detailed information on the application of OND in the field of own funds (parts 2 to 9), remuneration (part 10) and credit risk (parts 11 to 12).

In December 2014, the EBA disclosed for the first time these templates on options and national discretions in the supervisory disclosure section of its website. ^[36] According to Article 143(2) of CRD IV, the purpose of such disclosure is 'to enable a meaningful comparison of the approaches adopted by the competent authorities and the different member states'. With this final objective in mind, the EBA intends to develop further analysis on the information collected as regards to the imple-

mentation of options and national discretions in EU member states in order to develop peer reviews on selected topics such as own funds, remuneration or large exposures. Such peer reviews analysis shall be conducted from an EU-wide perspective, in parallel with the work conducted by the SSM on the exercise of CRD/CRR options and national discretions in its jurisdiction. The outcome of EBA analysis shall support the building up of a Single Rulebook and reduce the incentives for regulatory arbitrage in the EU.

Harmonising regulation and practices on recovery, resolution and deposit guarantee schemes

In 2015, the EBA will finalise a number of regulatory products which are in the public consultation stage. The EBA is also focused on the smooth and consistent implementation of the BRRD and relevant RTS and guidelines, as common criteria and effective cooperation in this area will be essential to revert the fragmentation of the Single Market and to allow NCAs, resolution authorities, the SSM and the SRM to work on the basis of consistent rules in all the jurisdictions it covers.

Deposit Guarantee Schemes

The new DGS Directive is an ambitious reform bringing improved protection for consumers throughout the internal market. The EBA is fully committed to promoting its sound and consistent implementation, in line with the tasks conferred upon it by the Directive. These range from conducting peer reviews to examining the resilience of national schemes, settling disputes between national authorities or DGSs, and producing non-binding guidelines to complement the Directive.

In 2015, the EBA will finalise the draft guidelines on payment commitments and risk based contributions to deposit guarantee schemes, which national authorities and schemes should comply with by the end of the year.

^[35] ITS on the format, structure, contents list and annual publication date of the supervisory information to be disclosed by competent authorities: <https://www.eba.europa.eu/regulation-and-policy/other-topics/draft-implementing-technical-standards-on-the-format-structure-contents-list-and-annual-publication-date-of-the-supervisory-information>

^[36] Overview on the implementation and transposition of the CRD IV package: <http://www.eba.europa.eu/-/eba-provides-overview-on-the-implementation-and-transposition-of-the-crd-iv-package>

The EBA will also start work on guidelines relating to stress tests and cooperation between schemes and authorities in the Union.

Establishing resolution authorities

2015 will be the first year of establishment of resolution authorities for many Member States, so the EBA will continue to support resolution authorities with focused training, benchmarking and peer reviews. The EBA will seek to actively work with all resolution authorities (including the SRB) in the EU to deliver harmonised practices and good mechanisms for cross border cooperation. It will seek to maximise synergies and avoid overlapping work as resolution authorities begin to exercise their roles and commence the preparation of resolution strategies and plans.

Regulatory developments

Investment firms

One of the broader projects that the EBA will undertake in 2015 is the review of the overall prudential treatment of investment firms. Investment firms are categorised according to the type of services they provide and the type of client for these services. These firms are subject to many different and, on occasions, overlapping legal requirements (stemming from CRR/CRD, MiFID and also UCITS or Alternative Investment Fund Managers Directive (AIFMD)) that apply fully or partially depending on the type of firm. This legal setting is very complex and the regulatory framework has posed many challenges.

The Commission has issued a call for advice to the EBA and ESMA to thoroughly review the current treatment with the view of improving it, as well as to address some of the exemptions and transitional periods in specific areas set out in CRR. The advice will focus on a review of the current categorisation of the firms and also on the specific regulatory requirements which may be applicable, such as whether and how the LCR should be applied to investment firms, or the convenience of establishing a specific treatment for firms that provide the activities and services in relation to commodity derivatives.

The EBA will analyse the overall risk framework and, in order to provide a meaningful assessment, will undertake a data collection exercise to get an overview of the current market. The EBA is expected to finalise its work by September 2015.

Assessment and monitoring of SMEs

As part of the mandate specified in Article 501 CRR, the EBA will work during 2015 to produce a report on SMEs, focusing on the evolution of the lending trends and conditions for SMEs as well as the effective riskiness of Union SMEs over a full economic cycle.

The EBA will also assess the consistency of own funds requirements, taking into account in particular the capital discount granted by Article 501 CRR for SMEs exposures as well as the trends in SMEs lending and their riskiness. The report will be delivered in Q1 of 2016.

In addition to the SMEs report, during 2015 the EBA will begin development of indicators to monitor SMEs lending trends in the EU on an ongoing basis as part of its mandate 'to monitor and assess market developments in the area of its competence, including where appropriate trends in credit, in particular, to households and SMEs' in Article 8(1)(f) of the EBA founding regulation (Regulation (EU) No 1093/2010).

Fostering communication between auditors and supervisors

On 27 May 2014, the audit reform package, which includes the amending Directive ⁽³⁷⁾ and the new Regulation ⁽³⁸⁾ on statutory audits, was published in the Official Journal of the EU. The two texts will be applicable by 17 June 2016. The EBA is assigned tasks to take current supervisory practices into account and issue guidelines addressed to competent authorities supervising credit institu-

⁽³⁷⁾ Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts [<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32014L0056>].

⁽³⁸⁾ Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC [<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32014R0537>].

tions to facilitate effective dialogue between the competent authorities supervising credit institutions, on the one hand, and the statutory auditor(s) and the audit firm(s) carrying out the statutory audit of those institutions and undertakings, on the other (Article 12(2) of the Regulation). These guidelines do not aim to address those circumstances that fall under the duty to report, but rather to establish a framework for an effective dialogue that should be established in accordance with Article 12(2) of the Audit Regulation for Public Interest Entities (PIEs).

Indeed, the supervisory tasks would be facilitated if supervisors of credit institutions and their statutory auditors and audit firms were required to establish an effective dialogue with each other and especially in the case of systemic financial institutions this will be an opportunity to use the auditor's work as a tool for financial stability.

In addition, the BCBS issued guidance on external audits ⁽³⁹⁾ in March 2014 which highlights the need to improve the quality of external audits of banks. External auditors of financial institutions can play an important role in contributing to financial stability when they deliver quality bank audits which foster market confidence in banks' financial statements. Quality bank audits are also a valuable input in the supervisory process. In this regard, the objective of the BCBS guidance on external audits of banks is to improve external audit quality of banks and enhance the effectiveness of prudential supervision, which contribute to financial stability.

The EBA has worked from Q3 2014 on developing these guidelines and as a starting point it has carried out a mapping of the existing practices of Member States in this area. International practices, namely the BCBS guidance, will also be considered in developing this guidance. The main objectives of these guidelines would be (a) to facilitate the tasks of supervision and contribute to the quality of external audits of financial institutions and (b) taking current supervisory practices into account, to harmonise the existing practices on the communication across the EU which currently varies significantly at the national level (as indicated in the EBA mapping of existing

practices) as far as possible, and in a way that does not hinder future enhancement to the auditor-supervisor dialogue.

Large exposures

As mandated in Article 395(2) of the CRR, the EBA will issue guidelines on how institutions should develop and implement appropriate internal policies and processes to monitor and limit exposures to shadow banking entities which carry out banking activities outside a regulated framework. In addition, the EBA will carry out a collection of data to inform on institution's exposures to different types of shadow banking entities to assist the Commission in developing its report to the European Parliament and the Council, which might include a legislative proposal on limits to these exposures.

In accordance to its areas of competence, the EBA will follow closely and contribute to any review of the Union's large exposures regime. This review might take place to align the Union's regime, to the extent possible, with the Standards on the supervisory framework for measuring and controlling large exposures issued by the BCBS in April 2014.

Scope of consolidation and application of prudential regulation

Under Article 18(7) of the CRR, the EBA is mandated to develop draft RTS to specify conditions according to which (prudential) consolidation shall be carried out in the cases referred to in paragraphs 2 to 6 of this Article. The EBA shall submit those draft RTS to the Commission by 31 December 2016.

The previous CRD included similar requirements as Article 18 of the CRR and therefore Member States' transposition of the previous CRD in their national legislation may have specified some of the conditions to apply these requirements. Hence, currently, various methods for prudential consolidation may be permitted by competent authorities depending on several factors, such as the type of participation of an institution in the capital of another entity and the links with the other entity.

In this regard, the EBA has been working from Q1 2015 on mapping the existing practices of Member States in order to better understand how the previous CRD was transposed in the Member States' legal framework. As part of

⁽³⁹⁾ External audits of banks - final document, BIS: <http://www.bis.org/publ/bcbs280.htm>

the EBA's Single Rulebook, the main objective of this RTS is to promote harmonised practices on prudential consolidation across EU Member States and to ensure that the appropriate consolidation method is applied for prudential purposes in order to reflect in a comprehensive manner the risks that a financial institution may be exposed to from its relationship with other entities.

Enhancing supervisory convergence

In 2015, supervisory convergence will continue to be an area of focus for the EBA. For the Single Market to function smoothly, enhanced convergence of regulatory and supervisory practices amongst competent authorities is needed. The development of the Single Rulebook by the EBA is the basis for convergent supervisory practices; however divergent practices still exist and pose a potential risk to the effective functioning of cross border groups and the advancement towards a level playing field.

The EBA's mandate on convergence of supervisory practices is outlined in its founding regulation and Article 107 of Directive 2013/36/EU which includes a specific mandate for the EBA

on promoting consistency of supervisory reviews, evaluations and supervisory measures in Member States.

The EBA interprets supervisory convergence as a process for achieving comparable supervisory practices in Member States which lead to a consistent application of Union rules and consistent supervisory outcomes. In this context the EBA will devote resources to the following areas to promote supervisory convergence:

1) Policy tools

The EBA will focus on further developing the Supervisory Handbook and supporting supervisory understanding and implementation of the common SREP framework and guidelines in national practices. In particular on the latter, the EBA will look into the areas of supervisory benchmarks aimed at helping competent authorities in determining additional capital requirements for various risks and elements of risks covered by the SREP guidelines. In addition, the EBA will provide further guidance on how to address some specific risks in SREP, including excessive CVA risk and information technology risk. Furthermore, revising the stress testing guidelines is also a key task for 2015 to improve institutions' stress testing capacity and to converge the supervisory stress testing framework where currently there is disparity in the use of buffers and stress test outcomes. To do this, it is necessary to describe a common language and to facilitate a common approach on the link between Pillar 2 buffers and stress testing.

2) Training

Training of supervisors is a high priority for driving supervisory convergence. In this respect, the EBA will deliver training for supervisory authorities on the functioning of supervisory colleges; on the assessment of recovery plans and joint decisions on group recovery plans; on the SREP process and methodology for the assessment of risks and also, mainly for resolution authorities, on resolution planning and functioning of resolution colleges. Such training will facilitate a common understanding amongst supervisors, enhanced skills and coordinated approaches across Member States.



Monitoring convergence of supervisory practices

The EBA is mandated under Article 107 of Directive 2013/36/EU to contribute to the development of consistent supervisory practices by collecting and assessing the information provided by national authorities regarding functioning of their SREP and assessment of risks, methodologies for supervisory stress testing, ongoing review of internal models and supervisory measures. The EBA will finalise this first annual report on the convergence of supervisory practices using information collected by the EBA over previous years through peer reviews and stock-takes of supervisory practices, benchmarking analysis on internal models. Furthermore, the report will be reviewed and updated based on the EBA's monitoring of the closely monitored colleges.

The report, which will be submitted to the European Parliament and the Council in early 2015, will provide a comprehensive overview of the degree of convergence on these matters and will illustrate the areas where further work by the EBA may be necessary to ensure the maintenance and progress of the Single Market.

Supervisory colleges — New tasks for colleges

One of the most significant challenges in 2015 will be the re-establishment of supervisory colleges under the new technical standards on supervisory colleges. Furthermore, the scope of joint college work is being markedly increased following the application of BRRD, meaning that in addition to the joint decisions that need to be reached on capital and liquidity, colleges will be required for the first time to conduct a joint assessment and reach a decision on the group recovery plans prepared by cross-border banking groups according to the BRRD requirements. Finally, resolution authorities will begin seeking input from supervisory colleges in areas such as resolution plans, resolvability or MREL decisions.

Cooperation for the effective functioning of colleges

To support college functioning, one of the EBA's priorities will be to intensify its cooperation with competent authorities to ensure the effective functioning of colleges and the fulfilment of all legal requirements. To do so, the EBA will:

- i. Continue to provide supervisory authorities with training — to introduce supervisors to the technical standards submitted to the Commission at the end of 2014 and the ones published in the Official Journal in the course of 2014; to help supervisors perform CRD/BRRD tasks in an efficient and effective manner; to ensure supervisors make use of all tools provided by the level 1 text and EBA regulation to reach the joint decisions and, where necessary, through EBA binding and non-binding mediation; to support supervisors in the roll-out of the common SREP framework from the guidelines on common procedures and methodologies for SREP.
- ii. Enhance the different analytical and communication tools already developed to inform colleges, e.g. micro-risk dashboard, college newsletter and college scorecard; and,
- iii. Engage regularly with consolidating supervisors of the closely monitored colleges to assist them in the interpretation of the new policy products and their impact on colleges. In particular, the EBA will be contributing to the process of assessing recovery plans through its participation in supervisory colleges — this work has already begun for the recovery plans developed following the 2013 EBA Recommendation.

Equivalence of third countries

The EBA will finalise the assessments of the equivalence of professional secrecy and confidentiality of third countries' supervisory authorities to ensure a consistent treatment of third country supervisory authorities in colleges. Furthermore, the EBA will respond to the Commission's request for technical advice on the equivalence of the legal and supervisory regimes in specific third countries. In this assessment, an EBA opinion on the overall

equivalence of regulation and supervision of 38 non-EEA jurisdictions will be drafted within the coming years. The jurisdictions to be assessed have already been chosen and prioritised in close cooperation between the EC and the EBA.

Equivalence would allow e.g. exposures to certain entities in these countries to be weighted with the same weights as exposures to debtors within the EEA. The EBA opinion could be a basis for a revised version of the Commission Implementing Decision (2014/908/EU) which declares which countries are regarded as equivalent and qualify for the reduced risk weight for certain public and financial entities as specified in the CRR. The endorsement of the Commission's Decision has already replaced the national assessments of equivalence which were revoked at the end of 2014.

Ensuring cooperation between Resolution Authorities and Supervisory authorities

2015 marks the first year of BRRD implementation and therefore it will be an intense year for resolution and supervisory authorities and for the EBA in its role of supporting the implementation of the new recovery and resolution framework in Europe.

With the establishment of resolution authorities, one specific focus for the EBA will be ensuring a close and effective cooperation be-

tween those authorities and supervisory authorities and their respective colleges in particular in the area of joint decisions – namely the joint decision on capital to be undertaken by supervisory colleges and the joint decision on the MREL to be taken by resolution colleges. The EBA will concentrate on understanding the main overlaps and areas of interface between the work of resolution and supervisory authorities and identifying possible ways of facilitating coordination and effective alignment of their respective decision making procedures.

The EBA's role in resolution colleges

In line with its legal mandate under the BRRD, in 2015 the EBA will actively engage in resolution colleges to support and guide their establishment, taking into account relevant international standards. The EBA's role also extends to mediating, where requested. In addition, the EBA will also actively participate in resolution colleges for the development and coordination of effective and consistent resolution planning.

The EBA will also continue to engage in the work of CMGs for systemically important banking groups, reflecting the importance of operations outside the EU to resolvability. At the end of 2015, the EBA will conduct a stock take of the progress made on resolution colleges across Europe.

Upgrading the risk analysis tools

In 2015, the EBA's main focus concerning the increased data infrastructure brought by the broadened data collection is to adhere to a strict quality assurance process and ensure full usage of the new data.

Keeping in mind the increased number of institutions reporting the data under the COREP and FINREP, the EBA will strive to improve the quality of data before it is submitted by competent authorities. This will mean that it will continue to encourage the competent authorities to take additional quality checks before sending the data.

In light of the data usage and in consideration of new harmonised concepts and definitions, and broadened data coverage, the EBA will finalise the definitions of the new comprehensive set of risk indicators. This toolkit of new risk indicators complements the existing set of KRIs, with an increase from the current 53 to more than 200. The new indicators will also cover a wider spectrum of different types of risk, including: liquidity, funding and asset encumbrance, asset quality, profitability, concentration, solvency, operational and market risk. The introduction of the indicators will enhance the EBA's mandate in identifying, at an early stage, trends, potential risks and vulnerabilities stemming from the micro-prudential level, across borders and across sectors.

Furthermore, the EBA will introduce a set of Detailed Risk Analysis Tools (DRAT), which go beyond the traditional definition of metrics, based solely on ratios, and instead use data visualisation techniques to increase their analytical power and assist potential users in reaching better conclusions. A representative selection of these DRAT indicators includes matrices of concentration, ranking of counterparties for large exposures and non-performing exposures, liquidity and funding information granular breakdowns and asset quality matrices. Similarly as the KRIs the DRATs will be used both internally by the EBA staff as well as externally in an aggregated form.

In respect to the EBA Risk Dashboard, the plan is to review its current contents, in the course of 2015, and enrich it with the most relevant representation of risk indicators and DRATs.

In addition to the upgrade of the EBA Risk Dashboard, the EBA will develop an analytical tool combining data on sectorial and geographical distribution of gross exposures, non-performing exposures and provisions collected from institutions through FINREP supervisory reporting; and market-based information on Expected Default Frequencies (EDF).

When finished, the tool will be used as a part of regular risk assessment work for providing up-dated information and forward looking information on risks and vulnerabilities in the European banking.

Increasing transparency on the EU banking sector

In 2015, the EBA will put a lot of emphasis on its work on market disclosure and public dissemination of data and postpone the EU-wide stress test. The BoS of the EBA decided not to carry out an EU-wide stress test in 2015 and to start preparing for the next exercise in 2016. Instead of a stress test, in 2015, the EBA will run a transparency exercise in line with the one conducted in 2013, which will provide detailed data on EU banks' balance sheets and portfolios. This decision has been communicated to the European Parliament, the Council and the Commission.

The planned disclosure exercise will be conducted in order to prevent reappearance of uncertainty on EU banks' exposures and solvency, after the significant progress made on the capital side.

In addition to the disclosure exercise and still in the context of disclosure to markets, the EBA will continue to monitor Pillar 3 disclosures of banks and propose way to enhance them as necessary. Namely, the regular assessment of Pillar 3 disclosures with identification of best disclosure practices, which the EBA has been carrying out since the first release of Pillar 3 disclosures in 2009, will resume. This assessment was interrupted in 2014 due to the priority given to drafting guidelines and other legal acts in the Regulation (EU) 575/2013. This assessment will be the first to cover the disclosure requirements in the CRR that have superseded those in Annex 12 of Directive (EU) 2006/48.

The EBA will also update some of the recently issued regulatory products as regards disclosures, especially asset encumbrance guidelines, to take into account the mandate given by Article 443, and the leverage ratio standard, to account for changes to be introduced in the leverage ratio framework.

Payments

In 2015, the EBA will intensify its efforts with regards to regulatory and supervisory convergence in the area of payments.

In relation to payment services, at the time of writing this report the negotiations of the PSD2 were still ongoing, but the text suggests that the revised text will confer mandates on the EBA, including in the area of authorisation of Payment Service Providers (PSPs) and registration of account information services; transparency related to a register for regulated and exempted entities; improvement of co-ordination of home/host supervision; security requirements for electronic payments, and the improvement of incident reporting throughout the European Union.



The EBA will develop the security-related mandates above in cooperation with the ECB. The European Forum for the SecuRe Pay will provide input into the development of these mandates, to the benefit of both, the EBA's regulatory and supervisory remit over payment services across the entire EU and the Eurosystem remit for the oversight of payment systems and retail payment instruments.

With regards to payment card schemes, the EBA will implement its mandate conferred by the Interchange Fee Regulation and will develop draft RTS establishing requirements to ensure payment card schemes and processing entities are independent in terms of accounting, organisation and decision making.

The EBA will also continue with the implementation of the mandates conferred on it in the PAD. The EBA will begin developing the draft RTS on standardised terminology based on the terminology used in the provisional lists of the 10 to 20 most representative services linked to a payment account and subject to a fee. These lists will be developed by competent authorities based on the EBA Guidelines on national provisional lists of the most representative services linked to a payment account and subject to a fee expected to be published in March 2015. In addition, the EBA will commence work on the draft ITS regarding a standardised presentation format of the fee information document and statement of fees and its common symbols, including consumer testing of these two documents and their symbols.

Annexes

Board of Supervisors' analysis and assessment

The EBA Board of Supervisors (BoS) takes note of the Annual Activity Report 2014, submitted by the Authorising Officer in accordance with Article 47(1) of the Financial Regulation applicable to the EBA.

Analysing and assessing the Annual Activity Report 2014, the BoS has made the following observations:

- The report contains a comprehensive account of the activities carried out by the EBA in the implementation of its mandate and Work Programme during 2014. The EBA has met its obligations under Article 47(1), providing a detailed account of the results achieved in relation to the objectives set in the Work Programme for 2014, financial and management information.
- The BoS acknowledges the challenges the EBA faces in terms of its constrained resources in the face of a demanding workload and welcomes the EBA efforts to manage this challenging situation.
- The BoS notes the EBA's response to findings from the European Court of Auditors and the Internal Audit Service.
- The BoS notes the Executive Director has no reservations or critical issues to report which would affect the presentation of the annual accounts for the financial year 2014 to the discharge authority.

London 15 June 2015,

Andrea Enria
Chair of the Board of Supervisors

Management assurance

The building blocks of management assurance at the European Banking Authority consist of several core elements. These are rooted in the implementation of the internal control standards and continued strong management oversight of both operational and horizontal activities, and adherence to principles such as sound financial management. The European Banking Authority is subject to regular audits by the internal audit service, the European Court of Auditors, and audit firms, which all provide impartial and thorough reviews of these standards, and are a further element of management assurance. With this framework in place, the European Banking Authority is confident there are no significant weaknesses that would create reservations or impact on the validity of the Declaration of Assurance from the European Banking Authority's Authorising Officer.

Declaration of assurance from the authorising officer

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

- Declare that the information contained in this report gives a true and fair view.
- State that I have reasonable assurance that the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principle of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.
- This reasonable assurance is based on my own judgement and on the information at my disposal such as the results of the ex ante verifications and ex-post controls performed during the year, or the reports of the Internal Audit Service and of the European Court of Auditors.
- Confirm that I am not aware of anything not reported which could harm the interests of the European Banking Authority.

London, 15 June 2015

Adam Farkas,
Executive Director of the European Banking Authority

Board of Supervisors-Members and Observers

Chairperson: Andrea Enria

Alternate Chairperson: Pedro Duarte Neves (Portugal)

1.	Austria	Helmut Ettl
2.	Belgium	Jo Swyngedouw
3.	Bulgaria	Nelly Kordovska
4.	Croatia	Damir Odak
5.	Cyprus	Argyro Procopiou
6.	Czech Republic	David Rozumek
7.	Denmark	Ulrik Nødgaard
8.	Estonia	Andres Kurgpõld
9.	Finland	Anneli Tuominen
10.	France	Édouard Fernández-Bollo
11.	Germany	Raimund Roeseler
12.	Greece	Spyros Zarkos
13.	Hungary	Márton István Nagy
14.	Ireland	Cyril Roux
15.	Italy	Luigi F. Signorini
16.	Latvia	Kristaps Zakulis
17.	Lithuania	Vytautas Valvonis
18.	Luxembourg	Christiane Campill
19.	Malta	Marianne Scicluna
20.	Netherlands	Jan Sijbrand
21.	Poland	Andrzej Reich
22.	Portugal	Pedro Duarte Neves
23.	Romania	Nicolae Cinteza
24.	Slovakia	Vladimír Dvořáček
25.	Slovenia	Miha Kristl
26.	Spain	Fernando Vargas
27.	Sweden	Martin Noréus
28.	UK	Andrew Bailey

* Composition of members as at 31 December 2014

Management Board- Members

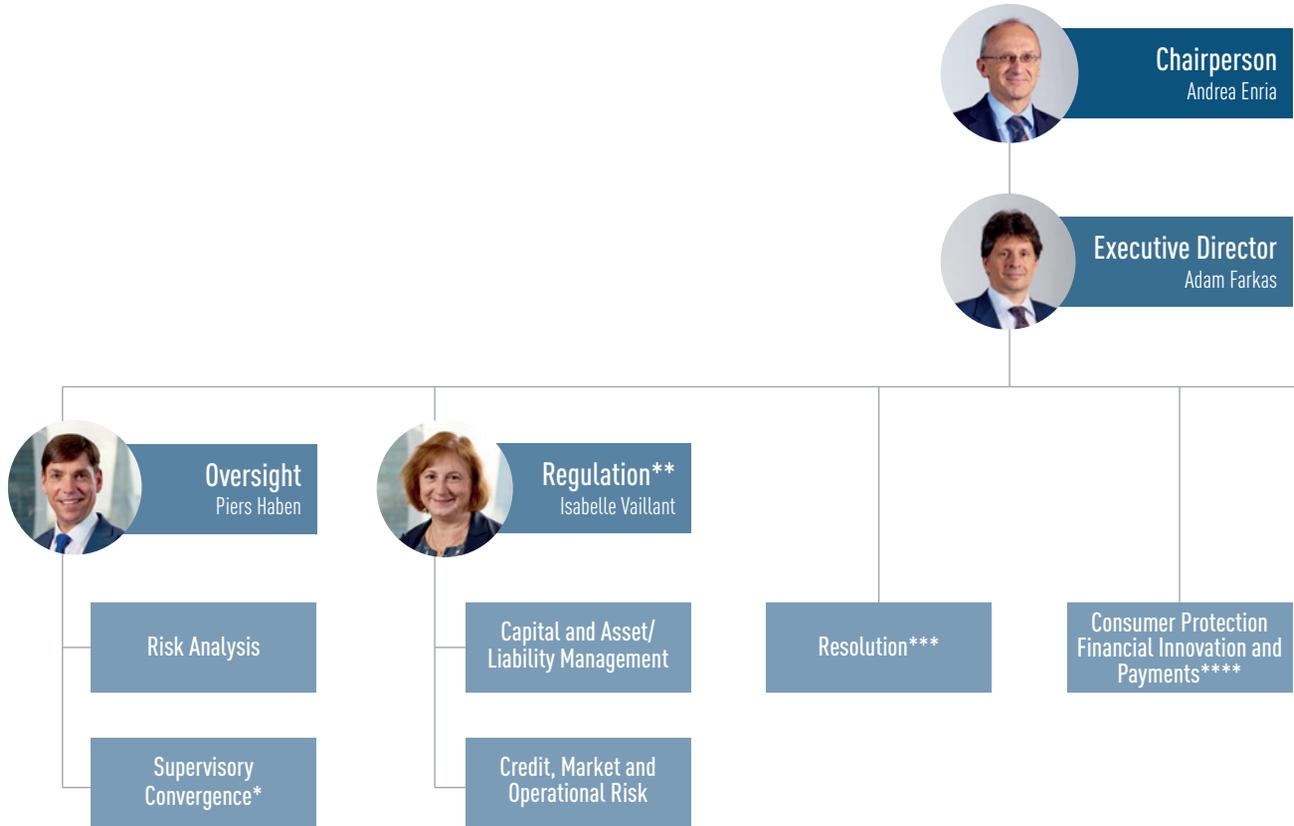
Chairperson: Andrea Enria

Alternate Chairperson: Pedro Duarte Neves (Portugal)

1.	Germany	Raimund Roeseler
2.	Italy	Luigi F. Signorini
3.	Netherlands	Jan Sijbrand
4.	Poland	Andrzej Reich
5.	Spain	Fernando Vargas
6.	UK	Andrew Bailey

* Composition of members as at 31 December 2014

EBA organisational structure as at 1 April 2015



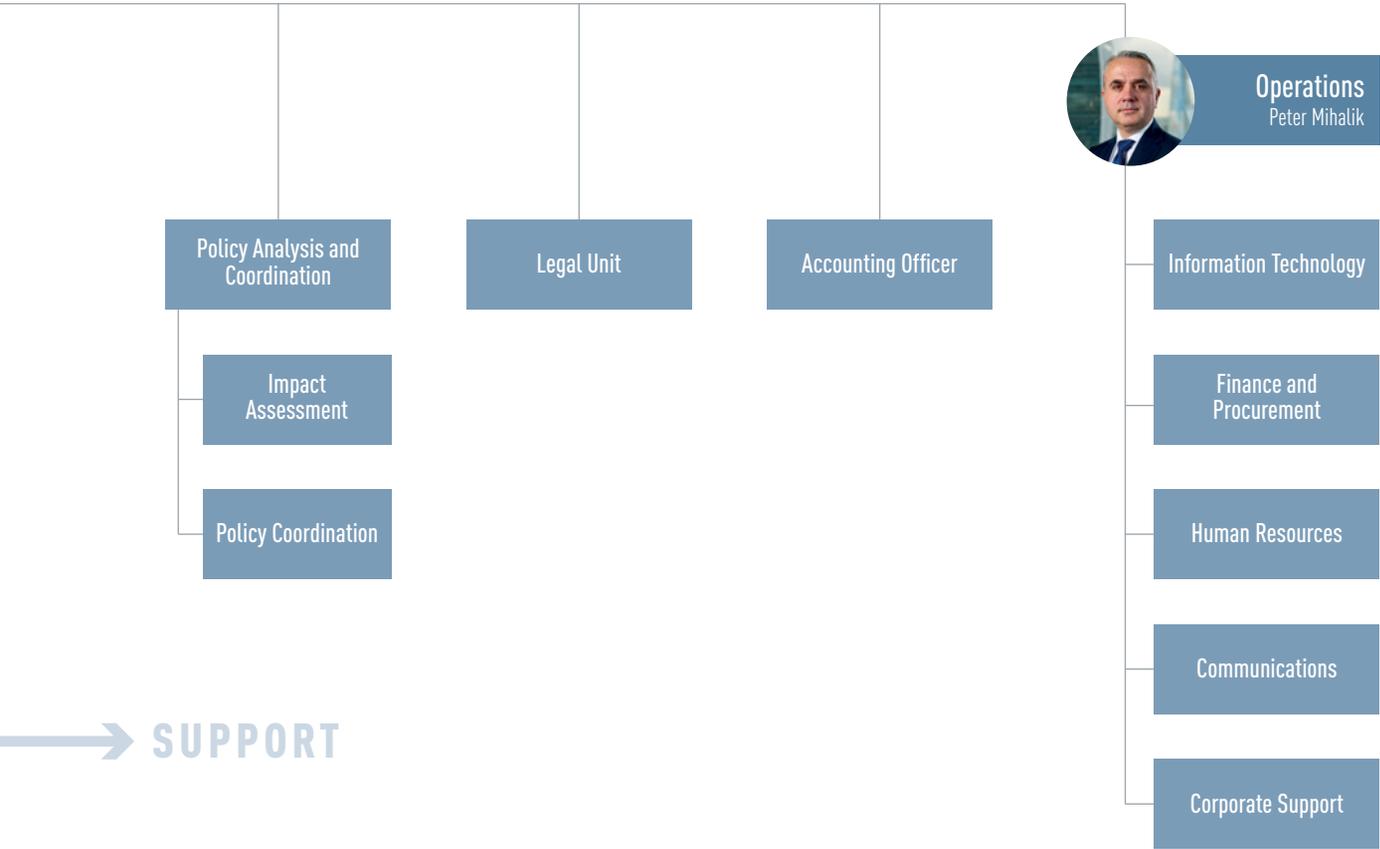
* The Home-Host Coordination Unit was renamed to 'Supervisory Convergence' in February 2015 and it took over some of the tasks of the dissolved Registration, Recovery and Resolution Unit.

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

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

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

CORE ←



Establishment plan

Category and grade	Establishment plan in EU Budget 2014		Modifications in 2014 in application of flexibility rule ⁽⁴⁰⁾	
	Officials	TA	Officials	TA
AD 16		0		
AD 15		1		
AD 14		1		
AD 13		3		
AD 12		6		
AD 11		10		
AD 10		10		
AD 9		14		
AD 8		19		
AD 7		16		
AD 6		12		
AD 5		10		
Total AD		102		
AST 11		0		
AST 10		0		
AST 9		0		
AST 8		0		
AST 7		0		
AST 6		0		
AST 5		1		+3
AST 4		3		-1
AST 3		2		
AST 2		3		-2
AST 1		0		
Total AST		9		
AST/SC 6		0		
AST/SC5		0		
AST/SC4		0		
AST/SC3		0		
AST/SC2		0		
AST/SC1		0		
Total AST/SC		0		
TOTAL		111		

⁽⁴⁰⁾ In line with Article 32 (1) of the framework Financial Regulation, the Management Board may modify, under certain conditions, the establishment plan in principle by up to 10 % of posts authorised, unless the financial rules of the body concerned allows for a different % rate.

Human and financial resources by activity

Job Type (sub) category	Year 2014 (%)
Administrative Support and Coordination	12.8 %
Administrative Support	9.0 %
Coordination	3.8 %
Operational	79.6 %
Top Level Operational Coordination	2.2 %
Programme Management & Implementation	47.3 %
Evaluation & Impact Assessment	2.2 %
General Operational	28.0 %
Neutral	7.6 %
Finance/Control	7.6 %
Linguistics	n/a

Financial report

The EBA's financial performance in 2014

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

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

Budget result

The budgetary accounts below give a detailed picture of the implementation of the budget in 2013 and 2014. They are based on the modified cash accounting principle. In 2014 the EBA used only non-differentiated appropriations. The total consumption of commitment appropriations reached EUR 33 535 451, of which EUR 28 203 368 has been paid and EUR 5 332 083 was carried over as per Article 14 of the EBA's financial regulation.

Figure 22: Budget result

(EUR)

		2014	2013
REVENUE			
Balancing Commission contribution	+	12,999,920	8,955,000
Surplus from 2012	+	1,100,062	3,579,860
Contributions from NSAs		18,960,232	13,056,162
Contributions from observers		506,235	376,338
Bank interests		20,512	-
Other income	+	22,915	13,642
TOTAL REVENUE (a)		33,609,876	25,981,002
EXPENDITURE			
Title I: Staff			
Payments	-	19,160,331	12,985,781
Appropriations carried over	-	158,449	249,850
Title II: Administrative expenses			
Payments	-	3,706,902	3,675,753
Appropriations carried over	-	3,431,070	2,034,511
Title III: Operating expenditure			
Payments	-	5,336,135	2,901,001
Appropriations carried over	-	1,742,564	1,651,203
TOTAL EXPENDITURE (b)		33,535,451	23,498,099
BUDGET RESULT FOR THE FINANCIAL YEAR		74,425	2,482,903
Cancellation of unused payment appropriations carried over from previous year	+	296,725	828,736
Adjustment for carry-over from the previous year of appropriations available at 31.12 arising from assigned revenue	+	-	-
Exchange differences for the year (gain +/loss -)	+/-	(86,896)	297,079
BALANCE OF THE BUDGET RESULT ACCOUNT FOR THE FINANCIAL YEAR		284,253	3,608,718
Balance year N - 1	+/-	3,608,718	1,100,062
Positive balance from year N - 1 reimbursed in year N to the Commission	-	(3,608,718)	(1,100,062)
Result used for determining amounts in general accounting		284,253	3,608,718
Commission contribution – accrued revenue in the Agency and accrued expense in the Commission		13,815,729	8,926,142
Pre-financing remaining open to be reimbursed by the Agency to the Commission in year N+1		284,253	3,608,718
Not included in the budget result:			
Interest generated by 31/12/2013 on the Commission balancing subsidy funds and to be reimbursed to the Commission (liability)	+	-	22,636

Budgetary execution

The table below shows the status of commitments and payments as of 31 December 2014, together with the amounts carried over to the 2015 financial year.

At the end of 2014 the EBA had an overall budget execution rate in 2014 of 99.8% for commitments and 83.9% for payments. This is a result of improvements in budget planning and monitoring while also reflecting the on-going under-resourcing of the agency.

Figure 23: Budgetary execution

(EUR)

Title	Voted Budget 2014 after transfers (1)	Commitments		Payments		Carried forward (4)=(2) – (3)	% (4) / (2)
		Committed (2)	% (2) / (1)	Paid (3)	% (3) / (1)		
I: Staff	19,357,793	19,318,780	99.8	19,160,331	99.0	158,449	0.8 %
II: Administrative	7,153,588	7,137,972	99.8	3,706,902	51.8	3,431,070	48.1 %
III: Operational	7,088,482	7,078,699	99.9	5,336,135	75.2	1,742,564	24.6 %
TOTAL	33,599,863	33,535,451	99.8 %	28,203,368	83.9%	5,332,083	15.9 %

Balance sheet

The balance sheet provides the financial position of the EBA as at 31 December 2014 and 31 December 2013..

Figure 24: Balance sheet

	<i>(EUR)</i>	
ASSETS	31.12.2014	31.12.2013
NON-CURRENT ASSETS		
Intangible fixed assets		
Computer software	2,449,337	1,231,737
Tangible fixed assets		
Computer hardware	340,447	190,283
Furniture	552,547	183,931
Other fixture and fittings	9,267,001	1,302,483
Total	12,609,332	2,908,434
CURRENT ASSETS		
Current receivables	1,126,393	1,325,331
Sundry receivables	54,502	125,621
Prepaid expenses	141,003	704,305
Cash and cash equivalents	5,051,159	6,091,340
Total	6,373,056	8,246,597
TOTAL ASSETS	18,982,388	11,155,031
LIABILITIES		
NON-CURRENT LIABILITIES		
Provision for risks and charges	1,579,348	2,576,631
Total	1,579,348	2,576,631
CURRENT LIABILITIES		
Current payables	3,651,712	1,300,183
Sundry payables	795,298	95,926
EU entities	284,253	3,631,354
Deferred revenue	6,494,024	-
Total	11,225,287	5,027,463
TOTAL LIABILITIES	12,804,636	7,604,094
NET ASSETS		
Accumulated surplus/(deficit)	3,550,937	4,554,713
Economic result for the year - profit/(loss)	2,626,815	(1,003,776)
TOTAL NET ASSETS	6,177,752	3,550,937

Statements of financial performance

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

Figure 25: Statements of financial performance

	2014	2013
<i>(EUR)</i>		
OPERATING REVENUE		
Contribution from the Member States	18,960,232	13,056,163
Contribution from EFTA countries	539,649	376,338
EU Subsidy	13,815,729	8,926,142
Foreign currency conversion gains	358,630	703,659
Other administrative revenue	26,169	571
TOTAL OPERATING REVENUE	33,700,409	23,062,873
OPERATING EXPENSES		
Staff expenses	15,173,827	12,182,252
Building and related expenses	2,755,848	1,932,416
Other expenses	10,532,157	8,781,953
Depreciation and amortization	2,025,564	760,381
Foreign currency conversion losses	445,526	406,580
TOTAL OPERATING EXPENSES	30,932,922	24,063,581
SURPLUS (DEFICIT) FROM OPERATING ACTIVITIES	2,767,487	(1,000,709)
NON OPERATING REVENUES (EXPENSES)		
Financial revenue	22,037	-
Financial expenses	(162,709)	(3,067)
SURPLUS/ (DEFICIT) FROM NON OPERATING ACTIVITIES	(140,672)	(3,067)
SURPLUS/ (DEFICIT) FROM ORDINARY ACTIVITIES	2,626,815	(1,003,776)
SURPLUS/ (DEFICIT) FROM EXTRAORDINARY ITEMS	-	-
ECONOMIC RESULT FOR THE YEAR	2,626,815	(1,003,776)

Figure 26: Cash flow statements

(EUR)

	2014	2013
CASH FLOW FROM ORDINARY ACTIVITIES		
Surplus/(deficit) from ordinary activities	2,626,815	(1,003,776)
Operating activities		
Depreciation of Tangible fixed assets	1,930,094	760,381
Increase/(decrease) in provisions for risks and liabilities	(1,692,631)	635,476
(Increase)/decrease in short term receivables	833,360	(1,671,532)
Increase/ (decrease) in accounts payable	2,255,603	(1,553,459)
Increase/ (decrease) in liabilities related to consolidated EU Entities	(3,347,100)	2,478,288
Net cash flow from operating activities	2,606,141	(354,623)
CASH FLOW FROM INVESTING ACTIVITIES		
(Increase)/decrease in tangible and intangible fixed assets	(3,646,322)	(2,499,825)
Net cash flow from investing activities	(3,646,322)	(2,499,825)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,040,181)	(2,854,448)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	6,091,340	8,945,787
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	5,051,159	6,091,340

Figure 27: Statement of changes in net assets

(EUR)

	Accumulated Surplus	Net Surplus for the Period	Total Net Assets
Balance as of 31 December 2013	3,550,937		3,550,937
Economic result of the year		2,626,815	2,626,815
Balance as of 31 December 2014	3,550,937	2,626,815	6,177,752

Statistics on financial management

Figure 28: Transaction statistics: 2014 budget and carry-overs from 2013

	Volume	Value	Average value
Commitments	469	33,535,451	71,504
Budgetary payments	2,875	31,842,208	11,075
Recovery orders	102	35,575,136	348,776

Note that recovery orders includes non-budgetary recoveries such as value-added tax (VAT).

Payment times on supplier invoices

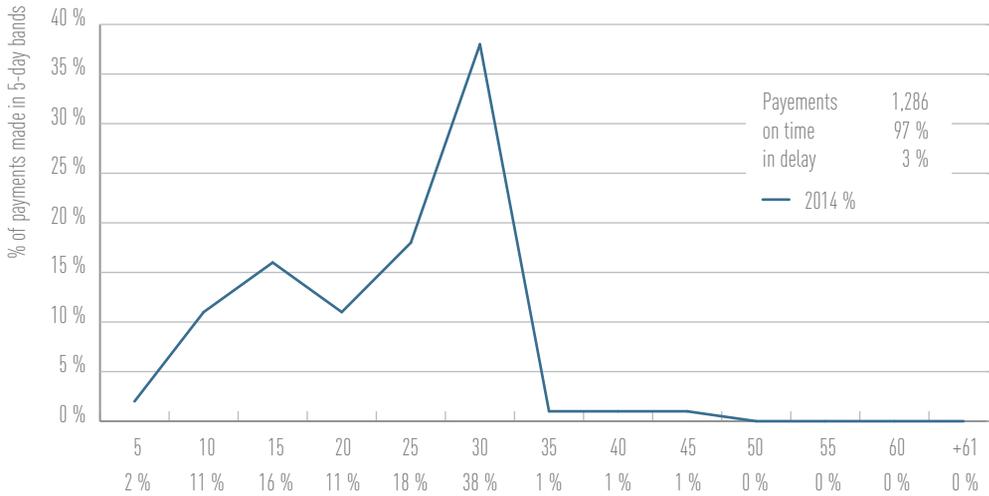
In mid-2014, the EBA started to implement a policy to maximise its use of credit terms available on supplier invoices, typically 30 days from receipt of invoice. This resulted in payment times being pushed out to 30 days, as can be seen in the chart below. The small peak

at 15 days dates back to the period prior to the implementation of this policy.

Late payment interest

In 2014, the EBA generated no late payment interest.

Figure 29: Payment delay on supplier invoices 2014

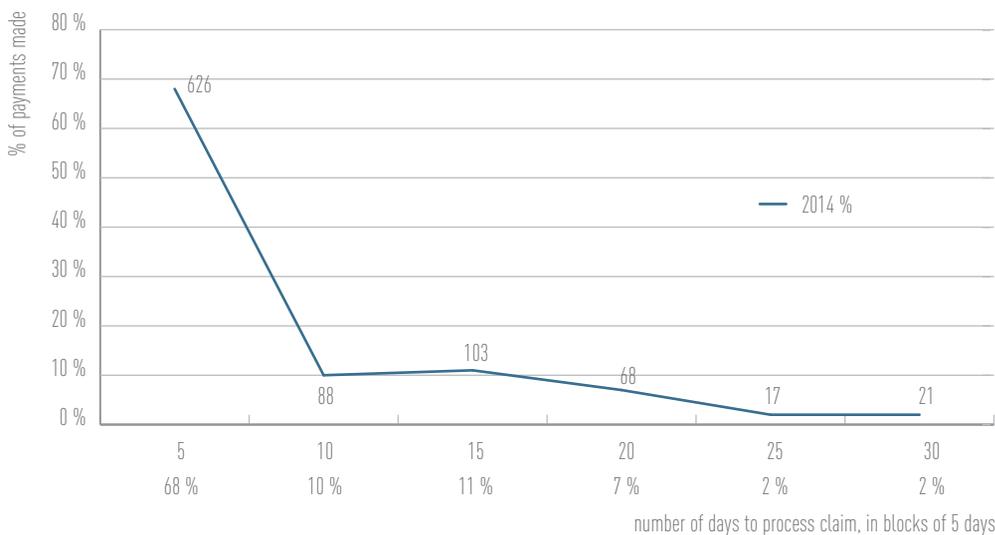


Payment times for staff reimbursements

The number of days for payment is based on the difference between the submission of the claim to Finance and the bank value date of

the payment to the staff member. The chart shows the percentage of payments by band of 5 days and the number of payments processed in each band.

Figure 30: Payment days for staff missions 2014



Regulatory compliance of guidelines and recommendations

According to Article 16(4) of EBA Regulation, this section provides an overview of competent authorities which have not complied with guidelines and recommendations issued by the EBA. In 2014, EBA issued 14 guidelines and 1 recommendation. For 5 guidelines, the period for notification of compliance was still ongoing as of 31 December 2014 (any possible non-compliance will be reported in the next EBA Annual Report). The EBA intends

to report periodically to the BoS on competent authorities that have failed to provide the notification of compliance with the guidelines and recommendations issued by EBA, in view of enhancing the process of compliance. To further strengthen consistency of supervisory practices of competent authorities, the EBA may conduct peer reviews, in line with Article 30 of EBA Regulation. The results of a peer review can lead to issuing changes to existing guidelines and recommendations, to identifying best practices which might be of benefit for other competent authorities to adopt, to informing technical standards under development, and/or can result in the EBA providing an opinion to the EU Institutions, as appropriate.

Figure 31: Regulatory compliance of guidelines and recommendation

EBA/GL/2014/01 — Guidelines on the Applicable Notional Discount Rate for Variable Remuneration (published on 27 March 2014)	
Disclosure requirements in Regulation (EU) 575/2013 (the CRR)	The following competent authorities do not comply with the guidelines, due to their decision not to apply the national discretion for using the discount rate:
Greece - Τράπεζα της Ελλάδος (Bank of Greece)	Croatia (National Bank of Croatia)
	Denmark - Finanstilsynet (Danish Financial Supervisory Authority)
	Estonia - Finantsinspeksioon (Financial Supervision Authority)
	Finland - Finanssivalvonta (Finnish Financial Supervisory Authority)
	Italy - Banca d'Italia (Bank of Italy)
	Latvia - Finanšu un Kapitāla tirgus Komisija (Financial and Capital Market Commission)
	Slovakia - Národná Banka Slovenska (National Bank of Slovakia)
	Sweden - Finansinspektionen (Swedish Financial Supervisory Authority)
	Iceland - Fjármálaeftirlitið (Icelandic Financial Supervisory Authority)
EBA/GL/2014/02 — Guidelines on Global Systemically Important Institutions — G-SII (published on 5 June 2014)	
The following competent authorities failed to provide the notification of compliance:	
Cyprus - Κεντρική Τράπεζα της Κύπρου (Central Bank of Cyprus)	
Finland - Finanssivalvonta (Finnish Financial Supervisory Authority)	
Gibraltar - Financial Services Commission (Gibraltar)	
Hungary - Magyar Nemzeti Bank (National Bank of Hungary)	
Iceland - Fjármálaeftirlitið (Icelandic Financial Supervisory Authority)	
Italy - Banca d'Italia (Bank of Italy)	
Lithuania - Lietuvos Bankas (Bank of Lithuania)	
Malta (Malta Financial Services Authority)	
Norway - Finanstilsynet (Norwegian Financial Supervisory Authority)	
Slovakia - Národná Banka Slovenska (National Bank of Slovakia)	

EBA/GL/2014/04 — Guidelines on Harmonised Definitions and Templates for Funding Plans on Credit Institutions under recommendation A4 of ESRB/2012/19 June (published on 30 June 2014)

The following competent authorities failed to provide the notification of compliance:

Latvia - Finanšu un Kapitāla tirgus Komisija (Financial and Capital Market Commission)

Norway - Finanstilsynet (Norwegian Financial Supervisory Authority)

EBA/GL/2014/05 — Guidelines on Significant Credit Risk Transfer (published on 7 July 2014)

The following competent authorities failed to provide the notification of compliance:

Malta (Malta Financial Services Authority)

Norway - Finanstilsynet (Norwegian Financial Supervisory Authority)

Slovakia - Národná Banka Slovenska (National Bank of Slovakia)

The following competent authority does not comply with the guidelines:

Croatia (National Bank of Croatia): a notification was received that credit institutions in Croatia are not involved in the securitisation transactions so far

EBA/GL/2014/06 — Guidelines on the range of scenarios to be used in recovery plans (published on 18 July 2014)

The following competent authorities failed to provide the notification of compliance:

Finland - Finanssivalvonta (Finnish Financial Supervisory Authority): a notification was received on delays in ongoing internal procedures regarding the implementation of the guidelines

Norway - Finanstilsynet (Norwegian Financial Supervisory Authority)

EBA/GL/2014/07 — Guidelines on the data collection exercise regarding high earners (published on 16 July 2014)

The following competent authority failed to provide notification of compliance:

Finland - Finanssivalvonta (Finnish Financial Supervisory Authority): a notification was received on delays in ongoing internal procedures regarding the implementation of the guidelines

EBA/GL/2014/08 — Guidelines on remuneration benchmarking exercise (published on 16 July 2014)

The following competent authority failed to provide notification of compliance:

Finland - Finanssivalvonta (Finnish Financial Supervisory Authority): a notification was received on delays in ongoing internal procedures regarding the implementation of the guidelines

EBA/GL/2014/09 — Guidelines on Tests, Reviews, Exercises that may lead to support Measures (published on 22 September 2014)

The following competent authorities failed to provide notification of compliance:

Estonia - Finantsinspeksioon (Financial Supervision Authority)

Ireland (Central Bank of Ireland)

Lithuania - Lietuvos Bankas (Bank of Lithuania)

Finland - Finanssivalvonta (Finnish Financial Supervisory Authority): a notification was received on delays in ongoing internal procedures regarding the implementation of the guidelines

The following competent authority does not comply with the guidelines:

Malta (Malta Financial Services Authority): A notification was received on intention not to comply with the guidelines, notifying that undertaking such tests, reviews or exercises would be considered as time and resource consuming, requiring competences lying outside the competent authority, and stating the opinion that compliance could only be achieved once there is specific direction from the ECB through the auspices of the SSM relating to the methodologies and parameters required

JC/GL/2014/43 — Joint ESMA/EBA Guidelines on Complaints-handling for the securities (ESMA) and banking (EBA) sectors (published on 13 June 2014)	
The following competent authority failed to provide notification of compliance:	The following competent authority does not comply with the guidelines:
Gibraltar (Financial Services Commission)	Netherlands - Autoriteit Financiële Markten (Authority for the Financial Markets): a notification was received that although the authority considers complaints for signalling risks, this is not being done on a structural basis; the authority will consider a need to incorporate the guidelines on a structural basis
EBA/REC/2014/01 — Recommendation on the use of Legal Entity Identifier (LEI) (published on 29 January 2014)	
The following competent authorities failed to provide notification of compliance:	
Bulgaria - Българска народна банка (Bulgarian National Bank)	
Croatia (National Bank of Croatia)	
Cyprus - Κεντρική Τράπεζα της Κύπρου (Central Bank of Cyprus)	
Germany - Bundesanstalt für Finanzdienstleistungsaufsicht (Federal Financial Supervisory Authority)	
Greece - Τράπεζα της Ελλάδος (Bank of Greece)	
Iceland - Fjármálaeftirlitið (Icelandic Financial Supervisory Authority)	
Latvia - Finanšu un Kapitāla tirgus Komisija (Financial and Capital Market Commission)	
Lithuania - Lietuvos Bankas (Bank of Lithuania)	
Malta (Malta Financial Services Authority)	
Poland - Komisja Nadzoru Finansowego (Polish Financial Supervision Authority)	

* Table last updated on 1 June 2015

Statistics on disclosure

In 2014 three formal requests for public access to documents were lodged at the EBA pursuant to Regulation (EC) No 1049/2001.

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