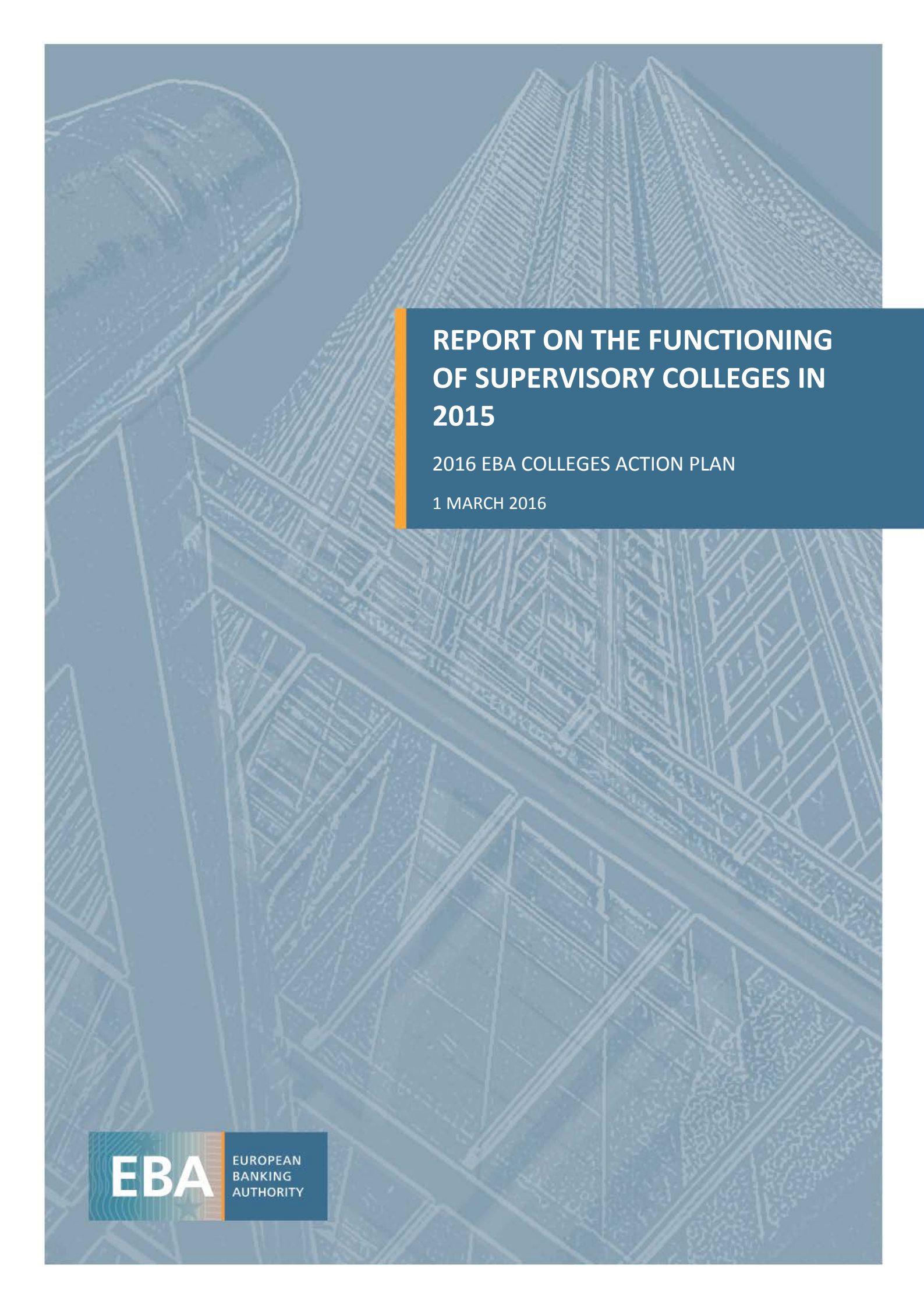




REPORT ON THE FUNCTIONING OF SUPERVISORY COLLEGES IN 2015

2016 EBA COLLEGES ACTION PLAN

1 MARCH 2016

EBA

EUROPEAN
BANKING
AUTHORITY

Contents

Executive summary	6
1. Identification of EEA colleges and selection of colleges monitored by the EBA	9
1.1 Introduction	9
1.2 The EBA's 2015 approach to college monitoring	9
1.3 EEA cross-border banking groups	11
1.4 Non-EEA cross-border banking groups present in the EEA	11
1.5 The EBA's coverage of colleges	11
2. Organisational aspects of college work	13
2.1 Re-establishing colleges	13
2.1.1 College members and observers	14
2.1.2 Mapping of group entities	15
2.2 WCCA	16
2.2.1 Main conclusions and progress achieved	17
2.2.2 Challenges and practical approaches	17
2.3 College SEP	19
2.4 EBA staff support and guidance	20
3. Level and quality of interaction organised within the college framework	21
3.1 Intensity of college interaction	21
3.2 College meetings	22
3.3 Quality of college meetings	23
3.3.1 Agenda and overall structure of the meetings	25
3.3.2 Meeting documents	25
3.3.3 Quality and depth of discussions	26
3.3.4 Minutes of the meetings	27
3.4 Responsiveness of colleges	27
3.5 EBA staff support and guidance	28
4. Group risk assessment and group liquidity risk assessment	30
4.1 Process	31
4.1.1 Group risk assessment	31
(i) Planning process	31
(ii) Process for developing and finalising the group risk assessment report	32
4.1.2 Group liquidity risk assessment	33
(i) Planning process	33
(ii) Process for developing and finalising the group liquidity risk assessment report	33
4.2 Content	34
4.3 Key topics for supervisory attention in 2015	35

4.4	EBA staff support and guidance	36
5.	Joint decisions on capital and liquidity	37
5.1	General observations on the transition from the development of group risk assessment reports to the reaching of joint decisions	37
5.2	Process and content of the joint decision documents on capital and liquidity	39
5.2.1	Process for the development and finalisation of the joint decisions	40
5.2.2	Content of the joint decisions on capital and liquidity	42
(i)	Scope of the joint decision documents	42
(ii)	Reasoning supporting capital joint decisions	42
(iii)	Formulation of additional capital requirements	43
(iv)	Combined buffers or capital planning requirements	44
(v)	Other memoranda items	44
(vi)	Findings on liquidity joint decisions	45
5.3	EBA staff support and guidance	45
6.	Joint decisions on the assessment of group recovery plans	47
6.1	Main observations and challenges	47
6.1.1	Key statistics	47
6.1.2	Procedural aspects	48
6.1.3	Requests of individual recovery plans	49
6.2	EBA staff support and guidance	50
7.	Colleges monitored on a thematic basis and other colleges	52
7.1	Thematic colleges	52
7.1.1	EBA staff support and guidance	53
7.2	Other colleges	53
8.	EBA tools facilitating colleges' functioning	55
8.1	EBA IT collaboration tool	55
8.2	Quarterly Colleges Newsletter	55
9.	Concluding remarks and next steps	57
	Annex I – Criteria indicated by supervisors in the mapping template for determining entities' significance for the group or local markets	58
	Annex II – 2016 EBA Colleges Action Plan	59
1.	Introduction	59
2.	Key tasks for supervisory colleges	60
3.	Key topics for supervisory attention in 2016	61
3.1	Key topics linked to risks faced by EU banks	61
3.2	Key topics linked to specific policy products	62
3.3	Key topics linked to supervisory initiatives	62
4.	The EBA's approach to college monitoring in 2016	63
4.1	Continuation of existing tasks	63

4.2	New focus or approach to existing tasks	63
4.3	New initiatives and scope	64

Abbreviations

BRRD	Bank Recovery and Resolution Directive
CBLs	Core business lines
CFs	Critical functions
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
EBA	European Banking Authority
ECB	European Central Bank
EEA	European Economic Area
ITS	Implementing technical standards
JST	Joint supervisory team
NCA s	National competent authorities
RTS	Regulatory technical standards
SEP	Supervisory examination programme
SREP	Supervisory review and evaluation process
SSH	Single supervisory handbook
SSM	Single supervisory mechanism
TSCR	Total SREP capital requirement
WCCA	Written coordination and cooperation arrangements

Executive summary

1. The EBA sets out key actions for supervisory colleges each year to improve the efficient, effective and consistent functioning of supervisory colleges across the EU. Overall, the requirements of the 2015 EBA Colleges Action Plan have been fulfilled to a reasonable extent. Significant efforts and improvements were observed for various aspects of colleges' work, such as the reorganisation of colleges, the frequency of interaction organised, and the quality of college meetings, but, with substantial drawbacks in others, such as aspects of joint decision processes, quality of joint decision documents, and requests for individual recovery plans outside the joint decision process. An overview of how individual colleges performed in various aspects of their work and function, and how action points were accomplished, can be found in Sections 2 to 7 of this report.
2. The year 2015 has been a milestone in the re-establishment and functioning of supervisory colleges, with changes resulting due to the setting up of the SSM at the end of 2014, and the new regulatory requirements on supervisory colleges. These developments have inevitably affected the re-establishment of colleges and have caused a reshuffling of membership and observership statuses among supervisory authorities.
3. In this context, competent authorities have put lots of effort and resources, especially in the first two quarters of 2015, into the (re)organisational aspects of colleges. While all of the closely monitored colleges¹ developed and shared information on **groups' entities** in EU and non-EU countries, which is documented in the form of a mapping template, 65% of them failed to provide college members with substantial information covering all credit institutions. The vast majority of colleges developed new **WCCA**, which are well structured and encompass the features envisaged in the regulatory framework.
4. **College SEPs** were adopted for all closely monitored colleges. The attention placed in that aspect of colleges' work has resulted in a fair degree of adherence to the regulatory requirements, especially with regard to the process and timing of their issuance; however, findings of previous years on little or no joint activities noted in the programmes—or absence of information on the resources committed—and the duration of supervisory activities remain a concern.
5. In 2015, 74% of the closely monitored colleges (50% in 2014) exceeded the EBA staff expectations for the minimum interaction, organising at least two physical meetings in 2015 and quarterly conference calls. In total, 58 physical meetings were organised, with improvements being observed in the quality of these meetings, supported by a well-thought-out structure and sufficient time allocated to all agenda items. Undoubtedly, the **enhanced level of interaction** in 2015 facilitated the development of closer collegial

¹ The terminology is further explained in Section 1.1 of the report describing the EBA's approach to college monitoring.

relationships between supervisors and contributed to more in-depth and multilateral discussions in the college framework. Improvements are still expected in the **timely circulation of meeting documents** given that, in 2015, for half of the colleges, meeting documents were shared only 1-2 days prior to the meeting.

6. Over the last couple of years, competent authorities have gained considerable experience in performing group risk assessments. In 2015, competent authorities have put effort into improving both the **quality of the group risk assessment reports** and the process for their development, with all closely monitored colleges (86% in 2014) communicating the relevant timelines. All colleges used mandatory templates for the group and individual risk assessments. However, some of them either didn't fully complete all sections of these reports, especially those related to the breakdown of the SREP capital requirements by risk type, or failed to develop or communicate individual reports for some of the subsidiaries of the group, or for the EU parent institutions on a solo basis. Notwithstanding, the EBA staff observed in general an overall good quality of the group risk assessments, with all material risks being captured and containing sufficiently detailed information, which enabled the development of a good and shared understanding of the risks to which groups are exposed.
7. As of the end of December 2015, all joint decisions on capital and liquidity were either agreed in principle (22%) or formally finalised (78%). However, failure to circulate the final group risk assessment was observed in 26%, and the final group liquidity risk assessment report in 35%, of the closely monitored colleges, creating confusion on the event within the joint decision process that marks the start of the four- and one-month periods for the reaching of the capital and liquidity joint decisions respectively. Looking at further aspects of the joint decision process, in 2015, one can observe a change in the approaches followed by consolidating supervisors in **circulating the draft joint decision documents** or **organising a consultation** on those documents with college members at the same time or after the submission of the draft document to the parent entity of a group—a practice that is not in accordance with the regulatory framework.
8. While the overall assessment of the quality of capital and liquidity joint decisions demonstrates marginal positive trends, the expectations of addressing issues that have been stressed in previous years' assessments still remained a challenge in 2015.
9. In particular, the incomplete information on the **breakdown of the SREP capital requirements** by risk type significantly affected the reasoning supporting the outcome of the joint decision. Challenges also remain with regard to the **formulation of the additional capital requirements** since, for 65% of the closely monitored colleges, capital requirements are not expressed in terms of TSCR, while challenges remain with the mix of Pillar 1 and Pillar 2 requirements with combined buffers or capital planning expectations.
10. With regard to liquidity joint decisions, it remains a general observation that the reasoning is limited and fails to make appropriate links to the group liquidity risk assessment report and individual liquidity risk assessment reports.

11. With the implementation of the new recovery and resolution framework under the BRRD, supervisory colleges are now required to assess **group recovery plans** for cross-border banking groups and reach joint decisions on the assessment of these plans. In 2015, a total of 19 out of the 23 group recovery plans were submitted by the banking groups of closely monitored colleges. The **formal joint decision process** has been initiated for the vast majority of the submitted plans. A substantial challenge faced by a number of supervisory colleges was the treatment of pre-existing **individual recovery plans**, or of requests from host authorities for individual plans for subsidiaries of cross-border banking groups, which were made outside the joint decision process established in the BRRD.

1. Identification of EEA colleges and selection of colleges monitored by the EBA

1.1 Introduction

12. On an annual basis, the EBA establishes an action plan for supervisory colleges ('EBA Colleges Action Plan'). The 2015 EBA Colleges Action Plan² provided authorities responsible for supervising credit institutions with a set of objectives and deliverables expected of supervisory colleges in line with their role and the tasks defined in the CRD³ and the BRRD⁴ and elaborated on the relevant EBA technical standards. It also established a set of tasks to be undertaken by the EBA staff to support and monitor colleges within its statutory mandate. The findings in this report are based on the outcome of the monitoring of the accomplishment of this plan, and the EBA staff's observations from the ongoing engagement and participation in college activities throughout the year.

1.2 The EBA's 2015 approach to college monitoring

13. The EBA followed the same approach for the monitoring of colleges as it did in 2014. To achieve a higher quality of guidance provided to colleges and to adjust the level of monitoring to the specificities of the colleges and cross-border groups for which they had been established—and in order to enable a more efficient use of EBA resources—colleges were divided into three groups:

- a) closely monitored colleges;
- b) colleges followed on a thematic basis; and
- c) other colleges.

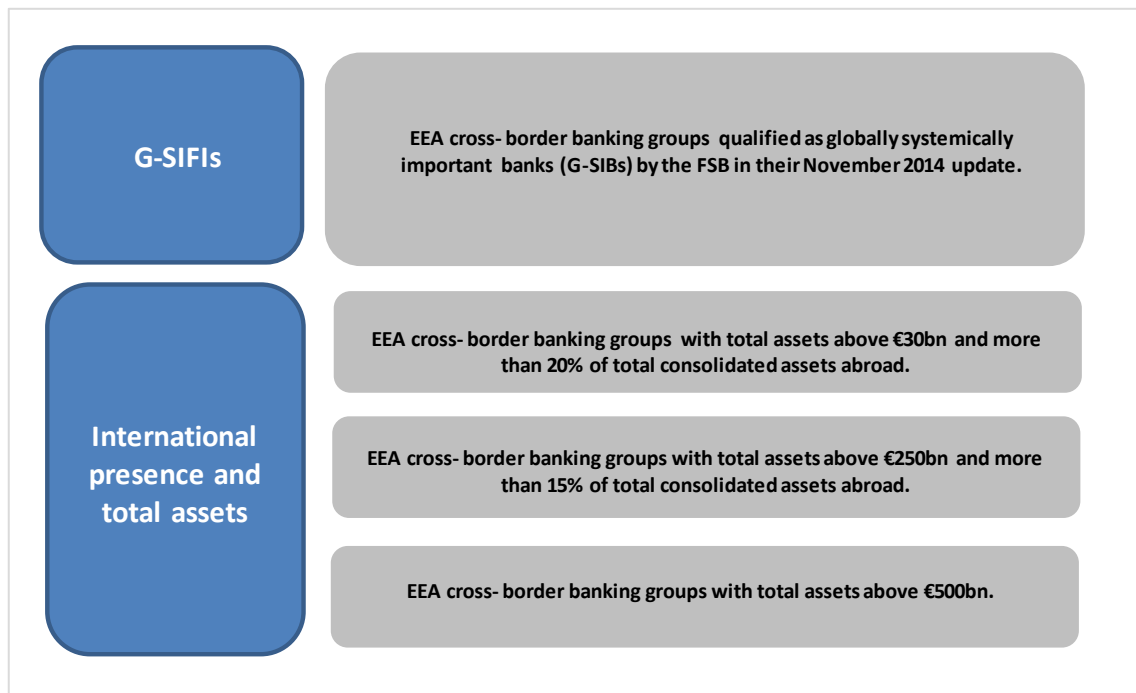
14. The following selection criteria were used for the identification of the closely monitored colleges in 2015.

² <http://www.eba.europa.eu/documents/10180/1042260/Accomplishment+of+2014+EBA+Colleges+Action+Plan+and+2015+EBA+Colleges+Action+Plan.pdf>.

³ Directive 2013/36/EU: <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32013L0036>.

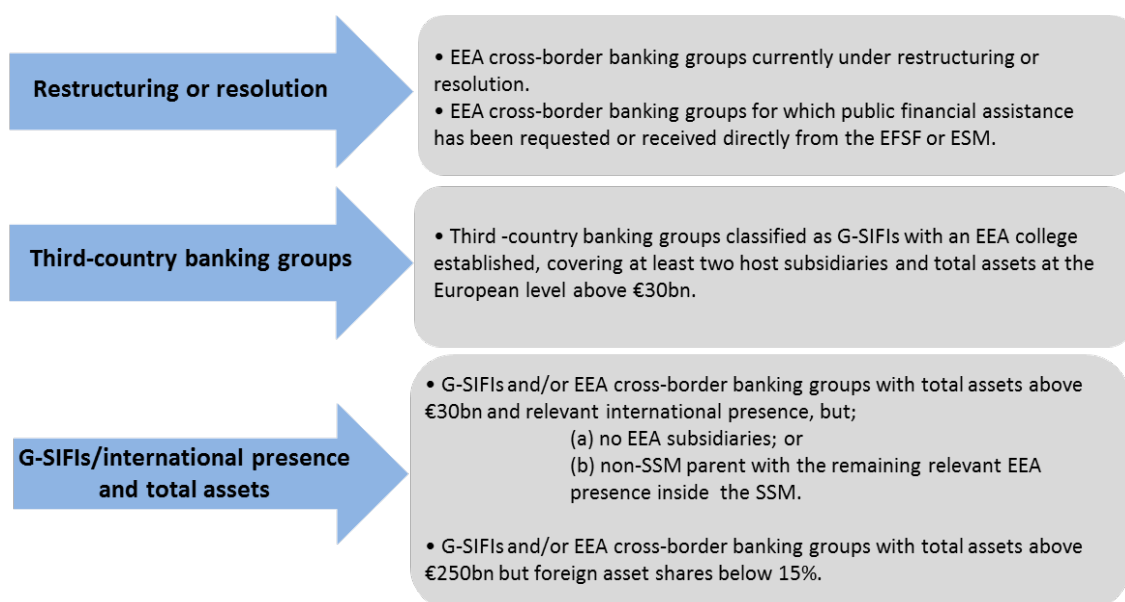
⁴ Directive 2014/59/EU: <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32014L0059>.

Figure 1 – Criteria used for the identification of closely monitored colleges



15. Moreover, the following selection criteria were used for the identification of colleges followed on a thematic basis.

Figure 2 – Criteria used for the identification of colleges monitored on a thematic basis



16. While for the closely monitored colleges there was an intense level of communication and cooperation between the EBA staff and the consolidating supervisors, the EBA staff interacted with the colleges followed on a thematic basis for specific topics (e.g. outcome of the group

risk assessment and joint decisions, and the process of restructuring or resolution). The so-called other colleges were not monitored on an individual basis and a group-based approach was used for communicating with the relevant consolidating supervisory authorities.

17. Sections 2 to 6 of the report present the EBA findings from the monitoring of the closely monitored colleges, while Section 7 provides some statistics and conclusions derived from the information gathered for the colleges followed on a thematic basis, and other colleges. Given that the cut-off date for the development of this report was set to the end of 2015, any activities and progress achieved at the very beginning of 2016 is not reflected in these charts or on the EBA staff's assessment.

1.3 EEA cross-border banking groups

18. The number of EEA cross-border banking groups identified in 2015 was 134, for which 68 active colleges have been reported. The colleges for 16 of the EEA cross-border banking groups under direct SSM supervision ceased to exist in 2015, given that subsidiaries and significant branches of these groups are located in SSM countries only, accounting for the majority of the drop in the number of colleges since 2014 (94 colleges). Consolidations and retrenchment from cross-border activities further added to the drop in the number of colleges.

1.4 Non-EEA cross-border banking groups present in the EEA

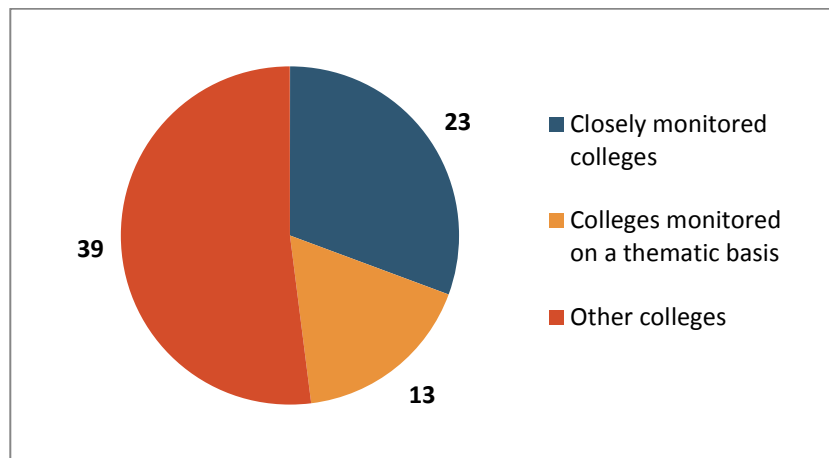
19. On top of the 134 EEA cross-border banking groups, 135 third-country banking groups were identified as being active in the EEA through one or several entities. In total, seven active colleges were reported to have been set up at the EEA sub-consolidated level for these banking groups. The current low EEA college coverage of these groups is partially due to the dispersed structure of these groups, and their lack of a holding company at the European level.

1.5 The EBA's coverage of colleges

20. From the total number of 75 active colleges, 23 were selected as closely monitored colleges, and 13 as colleges followed on a thematic basis⁵

⁵ A set of quantitative and qualitative criteria was used for the classification of the colleges, and both the criteria and the outcome were reported to the Board of Supervisors (BoS) members. Generally, colleges for G-SIFIs and large EEA cross-border banking groups (total assets above €30bn) with relevant international presence were classified as 'closely monitored' colleges, and colleges for EEA cross-border banking groups under restructuring or resolution, with SSM presence only or with non-relevant EEA subsidiaries and branches, as well as large third-country banking groups active in the EEA, were classified as colleges 'monitored on a thematic basis'.

Figure 3 – Number of colleges identified by the EBA in 2015



2. Organisational aspects of college work

22. Competent authorities have put lots of effort and resources, especially in the first two quarters of 2015, into the (re)organisational aspects of colleges, including the mapping of groups' cross-border presence, the establishment of the WCCA upon which colleges' functioning is based, and the adoption of colleges' SEPs. The following findings are important with regard to these aspects of colleges' settings and functions.

- a) All of the closely monitored colleges developed and shared information on groups' presence in EU and non-EU countries, which is documented in the form of a mapping template; however, 65% of them failed to provide substantial information covering all the credit institutions of each group.
- b) 96% of these colleges developed WCCA, which are well structured and encompass most of the features envisaged in the regulatory framework.
- c) All of the closely monitored colleges adopted college SEPs; however, the findings of previous years on little or no joint activities noted in the programmes—or absence of information on the resources committed—and duration of supervisory activities remain a concern.

2.1 Re-establishing colleges

23. Supervisory colleges are cooperation structures established under the CRD requirements of Article 116 that bring together the EU and non-EU authorities responsible for the supervision of institutions with a cross-border presence. They are established by the consolidating supervisor to facilitate the information exchange, the coordination of supervisory activities, the development of group risk assessments, the reaching of joint decisions on capital and liquidity, the assessment of recovery plans, and the relevant coordination and information exchange in emergency situations. Enhanced cooperation between authorities at both the EU and global level is key to strengthening the consolidating supervision of cross-border banking groups.

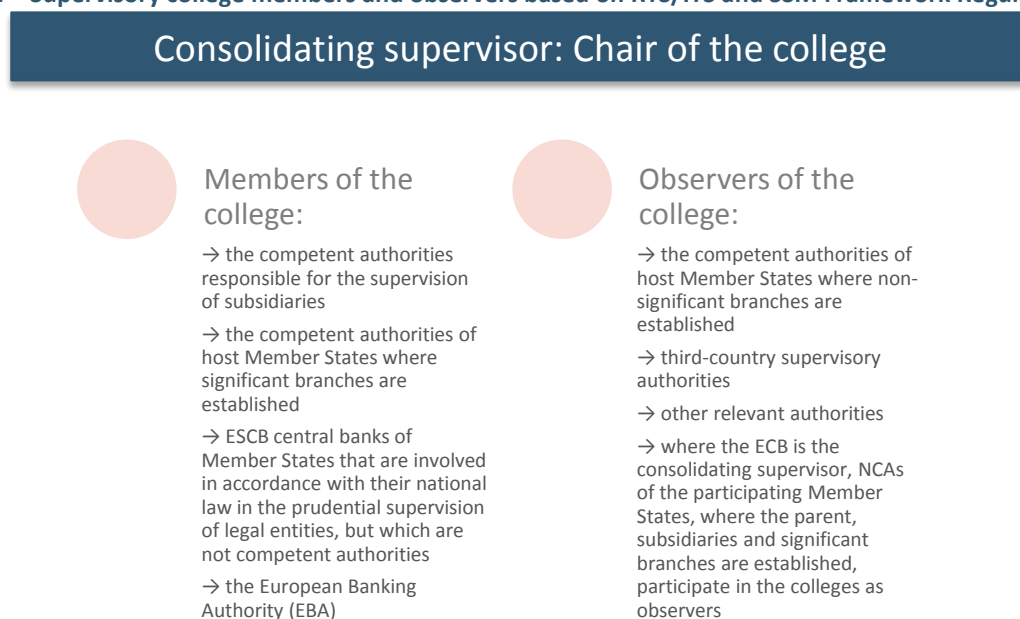
24. A supervisory college structure usually reflects the scale, nature and complexity of the supervised banking group, its significance in host jurisdictions, and the needs of its supervisors. The year 2015 has been a milestone in the re-establishment and functioning of supervisory colleges, with various challenges introduced through changes in the institutional setting and in the regulatory framework. Those changes have inevitably affected the allocation of membership and observership statuses among supervisors, and have significantly affected the re-establishment of colleges.

2.1.1 College members and observers

25. The creation of the SSM and the shift of responsibilities for the supervision of significant institutions established in the euro area from NCAs to the ECB have significantly affected the participation of competent authorities in supervisory colleges, their responsibilities, and their status. There was an unquestionable need for authorities to reassess their roles and competences under the new institutional setting, and to review colleges' settings and functioning.

26. The implementation of the CRD IV and CRR has also led to a number of changes in the regulatory framework covering college functioning. As part of its CRD mandates, the EBA delivered to the European Commission, at the end of 2014, a set of draft technical standards on the operational functioning of supervisory colleges,⁶ which provide for the participation of authorities under the status of 'members' or 'observers'.

Figure 4 – Supervisory college members and observers based on RTS/ITS and SSM Framework Regulation



27. In light of the institutional and regulatory developments, the EEA consolidating supervisors revisited colleges' settings and organisation, mostly in the following aspects.

- a) **Changes to the status of the ECB and NCAs of participating Member States:** With the setting up of the SSM and the creation of the JSTs, the role of consolidating supervisor for colleges of banking groups with parent undertakings authorised in a participating Member State moved from the respective home NCAs to the ECB. In addition, and under the

⁶ Draft RTS and ITS on supervisory colleges: <http://www.eba.europa.eu/regulation-and-policy/colleges-of-supervisors/regulatory-and-implementing-technical-standards-on-the-functioning-of-colleges-of-supervisors>.

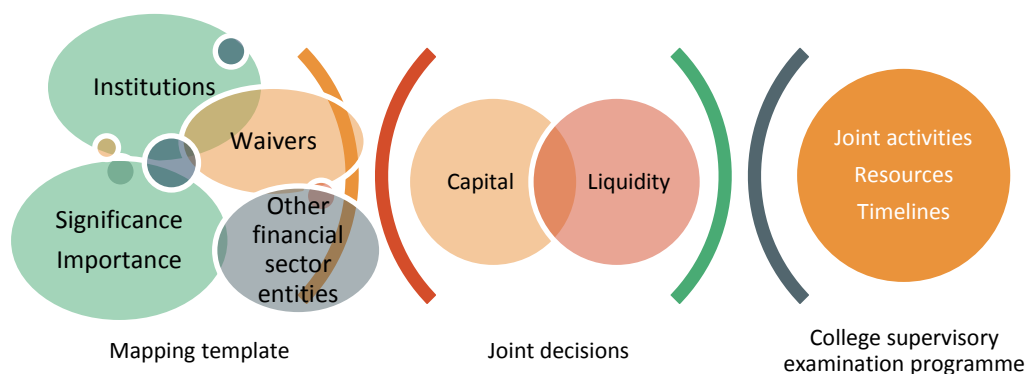
provisions of the SSM Framework Regulation⁷ the status of the NCAs of the participating Member States where the parent, subsidiaries and significant branches are established participate in colleges as observers. For supervisory colleges established for banking groups with the parent undertaking authorised in a non-participating Member State, but with presence in participating Member States through subsidiaries and significant branches, the participation of the ECB and NCAs was adjusted in accordance with the provisions of Article 9 of the SSM Framework Regulation.

- b) **Changes in the status of third-country and other supervisory authorities:** Third-country supervisory authorities and other authorities (e.g. insurance supervisors, and conduct supervisors) were assigned an observership status in EEA supervisory colleges in accordance with the provisions of the draft technical standards.

2.1.2 Mapping of group entities

28. One of the tools provided to competent authorities for the setting up and maintenance of supervisory colleges is the mapping template, which takes the form of Annex I of the draft RTS and ITS on supervisory colleges. The year 2015 has been the first year during which the college members used a harmonised approach, in the form of the template, for mapping the groups' cross-border presence in EU and non-EU countries and for exchanging information on the nature of the entities (e.g. credit institutions, investment firms, significant branches, and other financial sector entities), their significance for the group and for the domestic markets, and the waivers granted from the prudential requirements, among other issues. Further, the mapping of group entities serves as a basis for establishing college cooperation and for organising other aspects of college tasks and activities, as illustrated in Figure 5 below.

Figure 5 – Links between the mapping template and colleges' activities and tasks



29. The analysis of the mapping templates submitted for the 23 closely monitored colleges led to the following observations.

⁷ Regulation (EU) No 468/2014, Articles 9 and 10: <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0468&from=EN>.

- a) **Coverage of credit institutions:** For 65% of the closely monitored colleges, the information provided in the mapping template didn't cover all of the EEA banking institutions in the group. The absence of this information was highlighted by the EBA staff, along with arguments demonstrating that such omission is regarded as a significant impediment to college setting and functioning (e.g. mapping of the group is incomplete, significance of these entities is not shared among college members, and use of waivers for prudential requirements remains unclear with regard to the implications for joint decisions on capital and liquidity).
- b) **Scope of application and use of waivers for prudential requirements:** Substantial gaps have also been identified in information concerning group entities that are investment firms or other financial sector entities. The EBA staff stresses the importance of mapping templates to provide information in accordance with the requirements of the RTS and ITS on supervisory colleges, especially with regard to the implications on joint decisions on capital and liquidity (e.g. investment firms are subject to these joint decisions based on Article 113 of the CRD) and on developing a complete understanding of the risks faced by the group (e.g. insurance undertaking). Improvements on the information concerning the use of waivers for capital and liquidity requirements are also expected, given that this information is not provided for all entities reported in the mapping template.
- c) **Significance/importance of entities:** While some supervisors indicated exercising supervisory judgement for determining entities' importance for the group and their significance in the local market, others provided qualitative or quantitative criteria in accordance with the mapping template. Annex I of the report lists some of these criteria as shared and communicated by supervisors in the mapping template.

30. Going forward, the EBA staff would welcome improvements in the completion of the mapping templates, both in terms of the information provided (e.g. coverage of entities (SSM, non-SSM, credit institutions and investment firms, and other financial sector entities), use of waivers for prudential requirements, and criteria used for determining significance and importance), as well as in terms of the process followed for its completion (consultation with all college members, clear agreement between all college members on the assessment of the confidentiality provisions of third-country supervisory authorities before their involvement in the activities of the college as observers, and references to the use of the EBA Recommendation on equivalence assessment, as applicable).

2.2 WCCA

31. The establishment and functioning of supervisory colleges are based on WCCA agreed between college participants. With the RTS and ITS on the functioning of colleges, a new template for colleges' WCCA was introduced that builds on the Level 1 (CRD and BRRD) and Level 2 (binding technical standards on colleges) provisions and serves as a basis for agreeing and documenting all college-specific arrangements on practical aspects of college functioning and the interaction between college participants.

2.2.1 Main conclusions and progress achieved

32. For 22 out of 23 closely monitored colleges, new WCCA were developed and shared with college members, including the EBA. Out of these 22, only four WCCA were finalised and agreed between the consolidating supervisor and all college members in 2015, while those remaining are in various stages of finalisation, often due to pending agreement from (EU and non-EU) host authorities.

33. With regard to the process followed for their development and consultation with all college members, overall, the WCCA were issued in a timely manner by the consolidating supervisors, and college members were provided with sufficient opportunity to comment in several consultation rounds. In addition, discussions on the WCCA were brought to the agenda of the college meetings, and consolidating supervisors were generally open to accommodating comments received from college members.

34. With regard to the WCCA documents themselves, overall they were well structured and encompassed most of the features envisaged in the EBA template. In general, the agreements were quite comprehensive and sufficiently detailed.

2.2.2 Challenges and practical approaches

35. A challenge faced in some colleges, especially those with an important presence outside the EU, was the new terminology used in both the RTS and ITS on the functioning of colleges, and the WCCA template, which distinguishes between college members and observers. The use of the term 'observer' for third-country authorities participating in EU colleges was initially perceived as a change affecting their participation in the college. The consolidating supervisors, with the support and guidance of the EBA staff, elaborated on the details of the observership status for third-country authorities, which reflects the nature of their participation (i.e. that they may be involved in EU tasks, but they are not bound by Union Law) and which is not linked to the importance, either for the group or for the domestic markets, of the entities they supervise, nor does it affect the possibility for these authorities to participate in joint work organised under the colleges framework. In this context, the EBA staff also identified room for improvement in colleges' WCCA, specifying the conditions for the participation of third-country supervisory authorities (e.g. participation in the group risk assessment, the use of common templates, and the level of information to be shared).

36. Further, supervisors dealt with some delays in the finalisation of the WCCA, which emerged from discussions around the need for college members to officially demonstrate their agreement with the written arrangements. The EBA staff stressed during their participation in college and bilateral interactions with supervisors that the main objective of the WCCA is to provide a working document in which college-specific agreements are recorded and linked to follow-up actions where relevant. Such agreements are expected to elaborate further details on college functioning, building on the Level 1 and Level 2 provisions, and are to be subject to review and adjustment in order to ensure that they will always serve

the needs and specificities of each college. While the RTS on the functioning of supervisory colleges do not require the WCCA to be formally signed, there are no obstacles for concluding this agreement between the college members in a written form, especially if this is required by the national rules applicable to a college member concluding this agreement. In this respect, consolidating supervisors have shown flexibility in accommodating the requests of colleges.

37. Recognising the importance of establishing efficient and effective cooperation and coordination between supervisory and resolution authorities before, and for the purpose of, providing input for group resolution issues, the WCCA provide for the processes of coordinating the relevant input and communicating that input from the supervisory to the resolution college via the consolidating supervisor and the group-level resolution authority. Given that, in 2015, the majority of resolution colleges for the closely monitored colleges were not yet put in place, the aspects of the WCCA covering the interaction between supervisory and resolution colleges were not developed, announcing, however, that supervisors were intending to follow up on this in 2016.

2.3 College SEP

38. In 2015, all closely monitored colleges developed and submitted college SEPs. In total, three out of the 23 closely monitored colleges included either capital (two) or liquidity (one) joint decision timelines as integrated part of their SEPs, with the remaining colleges developing separate timelines for the capital and liquidity joint decision processes. A relevant observation in this regard is that, for a few colleges where the capital and liquidity joint decisions were integrated, the aspects of the SEP covering these tasks were often not detailed enough to cover all the steps described by Commission Implementing Regulation (EU) No 710/2014.⁸

39. Evidently, the attention placed on SEPs has resulted in a considerable degree of adherence to the requirements of the regulatory framework, especially with regard to the process and timing of their issuance. In particular, the EBA staff saw early cooperation for the development of the programmes starting at the end of the previous year—which is key to ensuring quality examination programmes and supervisory activities that are inspired and that reflect findings from the joint risk assessment and joint decision process. Nonetheless, the EBA staff noted that many SEPs included little or no joint activities, as they focused primarily on individual onsite and offsite inspections as a result of compiling national supervisory actions. In this context, supervisory activities included in the SEPs lacked specific timings, durations and information on resources committed by respective college members as envisaged in relevant articles of the RTS on supervisory colleges.

⁸ http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:JOL_2014_188_R_0002.

2.4 EBA staff support and guidance

40. To support the re-establishment and consistent application of the new regulatory framework, the EBA staff engaged with competent authorities through the organisation of the following activities.

- a) Organised bilateral meetings with consolidating supervisors, explaining the new regulatory framework and expectations based on the findings of the 2014 assessment.
- b) Provided guidance and clarification for the performance of the mapping of group entities. Discussions were also organised on a bilateral basis with some consolidating supervisors in an effort to underline the importance of all aspects of this exercise for the setting up of the college and the organisation of college tasks.
- c) Issued a Recommendation⁹ on the equivalence of the confidentiality regimes of 29 authorities from 13 non-EU countries. Competent authorities can now refer to the EBA Recommendation for the assessment of confidentiality regimes of third-country authorities in view of their participation in EU supervisory colleges, and can use it as a common reference in the WCCA.
- d) Provided support and guidance on the establishment of the WCCA by organising a pilot exercise with the involvement and commitment of a consolidating supervisory authority. The lessons learnt from this pilot exercise were used for training and support for other supervisors. In addition, the EBA staff's input was requested several times during the year around a number of topics related to the establishment of the new WCCA. Consolidating supervisors were perceptive and addressed the EBA staff's suggestions and comments in the majority of cases.
- e) Offered training for experts from competent authorities involved in the organisation and participation of colleges. In particular, in Q1 and Q4 2015, the EBA staff organised dedicated workshops on the implementation of the technical standards on supervisory college functioning.

⁹ <http://www.eba.europa.eu/regulation-and-policy/colleges-of-supervisors/recommendation-on-the-equivalence-of-confidentiality-regimes>.

3. Level and quality of interaction organised within the college framework

41. In 2015, the following findings were identified on the level and quality of interaction organised within the college framework.

- a) 74% of the closely monitored colleges exceeded the EBA's expectations with regard to the intensity of college interaction, organising at least two physical meetings in 2015 and quarterly conference calls.
- b) In total, 58 physical meetings were organised with improvements being observed in the quality of these meetings, supported by a well-thought-out structure and sufficient time being allocated to all agenda items.
- c) For half of the colleges, meeting documents were shared only 1-2 days prior to the meeting, not allowing sufficient time for preparation.
- d) In 61% of the closely monitored colleges, minutes or conclusions from meetings had been prepared for and shared with other college members for comments.
- e) A good level of responsiveness, at 17 out of the 23 colleges, was noted, with consolidating supervisors being eager to cooperate with the EBA and other college members.

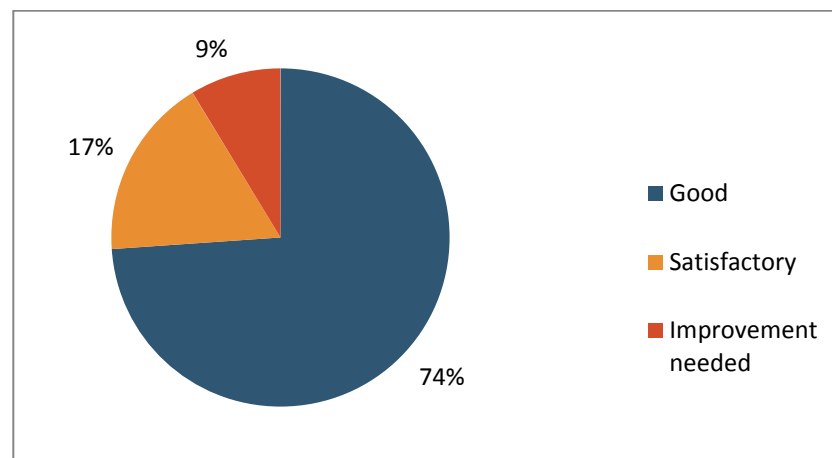
3.1 Intensity of college interaction

42. In early 2015, and similarly to the previous year, the EBA communicated individually with the consolidating supervisors of closely monitored colleges about the expected minimum level of college interactions, with the aim of actively encouraging cooperation within the college framework.

43. The expectations generally included quarterly college interactions in a suitable college setting, of which one or two interactions were recommended in the form of physical meetings in order to lead to more efficient and fluent interactions among competent authorities. The EBA considered the intensity of college interactions to be 'good' if more interactions than the expected minimum had been organised in the college.

44. Competent authorities considerably increased their efforts in ensuring fluent and effective cooperation in colleges in 2015. While, in 2014, half of the closely monitored colleges were assigned a good score, in 2015, 74% of them were, which shows significant improvement. Altogether, 91% of the colleges met or exceeded the EBA's expectations on the intensity of interaction.

Figure 6 – Frequency of college interactions



45. The year 2015 was the first complete year with the SSM fully in charge of organising the activities of supervisory colleges of cross-border banking groups headquartered in the Eurozone. The horizontal approach of the SSM in ensuring consistency among supervisory colleges in terms of college processes undoubtedly contributed to the overall intensified level of interaction.

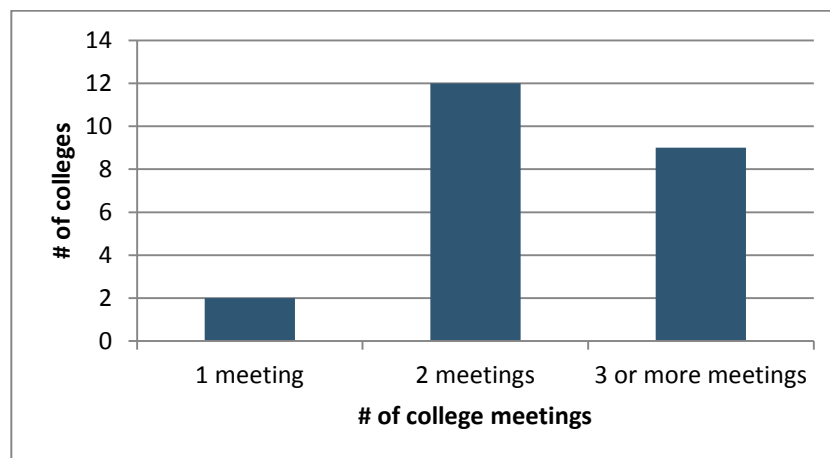
46. Further, a handful of colleges in which supervisors had been working together for years organised quarterly physical meetings in 2015, and the EBA's observation is that the time and effort devoted to the close cooperation positively affected the quality of the supervision of the relevant banking groups.

47. The EBA's practice of providing colleges with the minimum level of expected interaction encouraged a more intensive cooperation among banking supervisors and contributed to better functioning supervisory colleges throughout the EU.

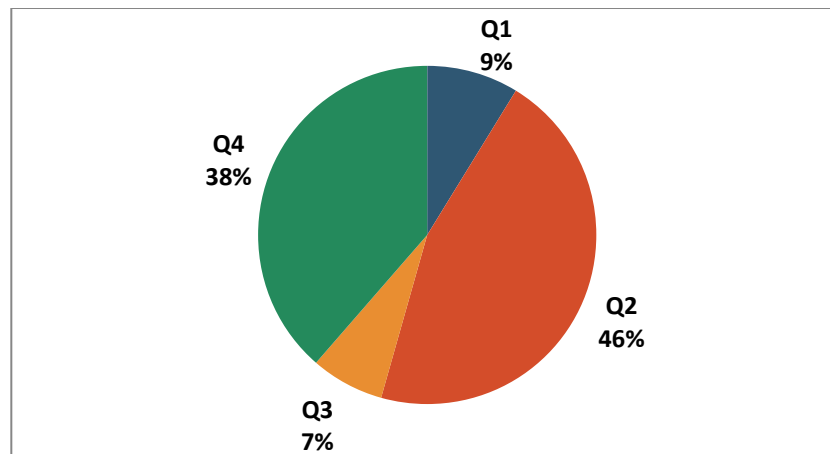
3.2 College meetings

48. The 23 closely monitored colleges held a total of 58 meetings during the course of 2015, of which 55 were attended by staff from the EBA. The college meetings that were not attended by staff from the EBA were focused on technical topics (e.g. Internal Ratings Based Approach status updates) or were held overseas.

49. In 2015, the EBA staff observed a substantial increase in the number of colleges that organised two meetings, while nine out of the 23 closely monitored colleges had three or more physical gatherings throughout the year.

Figure 7 – Number of physical college meetings in 2015

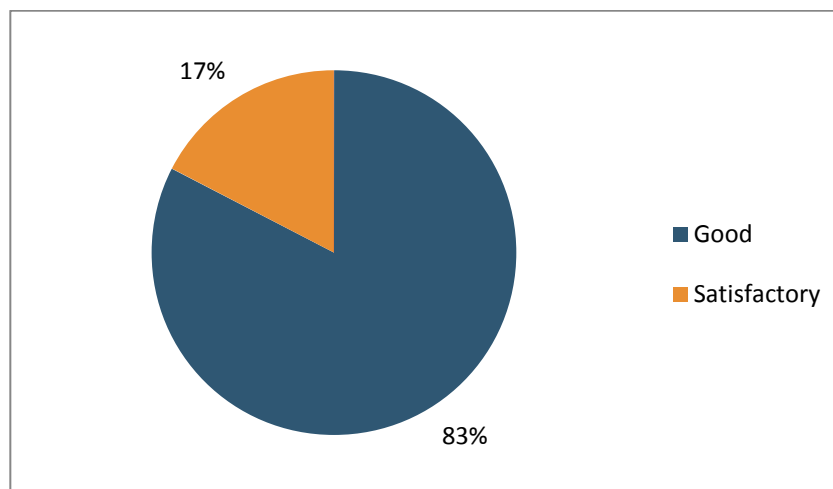
50. Similarly to previous years, the distribution of college meetings showed seasonality, with the highest number of meetings organised in Q2 (46%) followed by a strong Q4 (38%). While the Q2 meetings generally focused on discussing the group risk/liquidity risk assessment reports, the Q4 meetings dealt with the finalisation of the joint decisions and/or the assessment of the group recovery plan.

Figure 8 – Distribution of physical college meetings by quarter in 2015

3.3 Quality of college meetings

51. The overall assessment of the quality of the college meetings has been conducted relying on the main driving forces of successful and effective college meetings identified by the EBA staff: (i) agenda of the meetings; (ii) meeting documents and presentations; (iii) quality and depth of the discussions, which has the highest effect on the overall score; and (iv) minutes of the meetings.

Figure 9 – Quality of college meetings: overall score



52. An outstanding improvement could be observed with regard to the quality of the college meetings compared to 2014. The enhanced level of interactions in 2015—in particular, the increase in the number of physical meetings organised—facilitated the development of closer collegial relationships between supervisors, thus contributing to more in-depth and multilateral discussions in the college framework. Ultimately, this led to a better quality of cooperation among college members and observers, as reflected in the yearly assessment. 83% of all colleges received an overall score of ‘good’ for the quality of college interactions, while, in 2014, this number was only 50%. The activities of the rest of the colleges are considered ‘satisfactory’ by the EBA staff, and the following shortcomings have been identified.

- a) The meeting documents were not circulated prior to the meeting, which hindered the preparation of host authorities.
- b) The consolidating supervisor did not seek suggestions from host authorities on topics to be included as agenda items or to be addressed by the bank representatives at the meeting.
- c) Not enough time was allocated to some of the agenda items.
- d) Host authorities were not active, or were less active, during the meeting and rarely challenged the consolidating assessment and supervisory judgement.
- e) The discussions barely developed to multilateral conversations, remaining on a rather bilateral level.

53. In the following sections, more details on the individual elements of the assessment are provided.

3.3.1 Agenda and overall structure of the meetings

54. The EBA encourages consolidating supervisors to provide other college members with the opportunity to comment on the agenda prior to the meetings and/or to suggest further items to be discussed. For meetings attended (or partially attended) by banks' management, a positive practice observed was that the consolidating supervisor consulted college members on topics to be covered by bank representatives prior to the meetings. According to our observations throughout the year, the vast majority of closely monitored colleges (21 out of 23) follow these good practices, which further enhances the effectiveness of the meetings.

55. The agenda of the college meetings and the conference calls generally reflected all relevant topics. Nevertheless, shortcomings around group risk assessments and joint decisions, and, in particular, whether these topics were explicitly included in meeting agendas, are not reflected in the assessment of the quality of the college meetings but were elaborated in further sections of the report.

56. The overall structure of the meetings (calls and physical meetings) in general was good, and sufficient time was allocated for all agenda items, including presentations and discussions.

3.3.2 Meeting documents¹⁰

57. The EBA staff's experience is that the earlier the meeting materials (presentations and other meeting documents) are distributed, the more time there is for preparation, which results in a better quality of college interaction in general as it helps to stimulate the discussions. Therefore, the EBA suggests the circulation of the documents well in advance of the meeting.¹¹

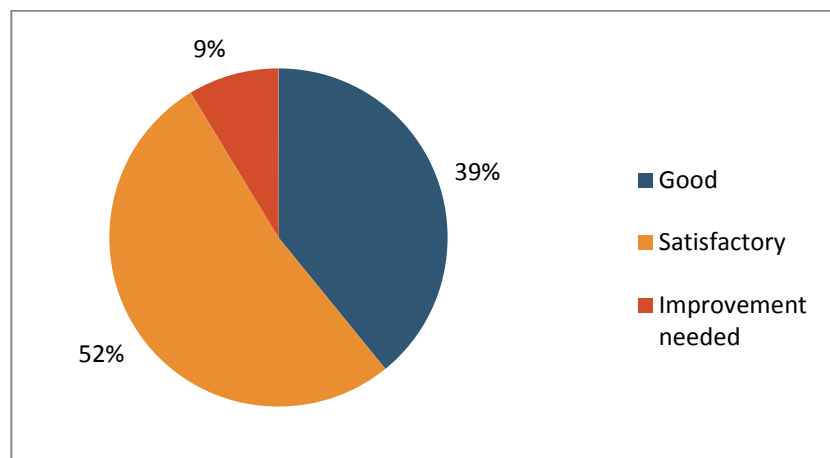
58. In more than half of the colleges, either the documents were circulated only 1-2 days prior to the meetings or only some of the documents were provided, which did not provide ample time for preparation.

59. Such findings are also valid with regard to the circulation of meeting material provided by the bank representatives. While one can acknowledge that it is difficult for the consolidating supervisor to ensure that the banks' presentations are delivered prior to the meetings, further improvement is expected in this respect. Given that the banks' updates are an important part of the physical meetings and generally cover complex issues and/or contain a wealth of information, it is reasonably expected that these are shared in a timely manner.

¹⁰ Presentations by competent authorities and other members of the college, as well as the banks' presentations; occasionally there are other documents. (The distribution of the risk assessment and joint decision is assessed under the relevant sections.)

¹¹ Five days prior.

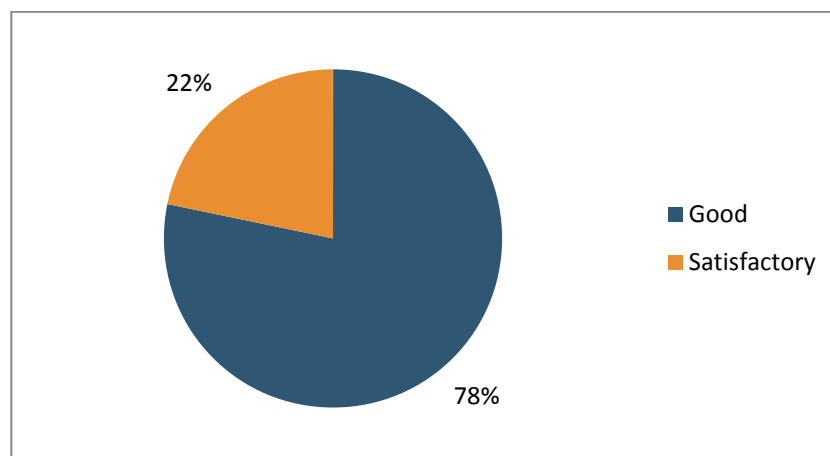
Figure 10 – Meeting documents/presentations



3.3.3 Quality and depth of discussions

60. The quality and depth of the discussions in colleges has further improved over the course of 2015. Of the 23 closely monitored colleges, 18 colleges received a good score (78%), while 22% have been assigned a satisfactory score.

Figure 11 – Quality and depth of discussions



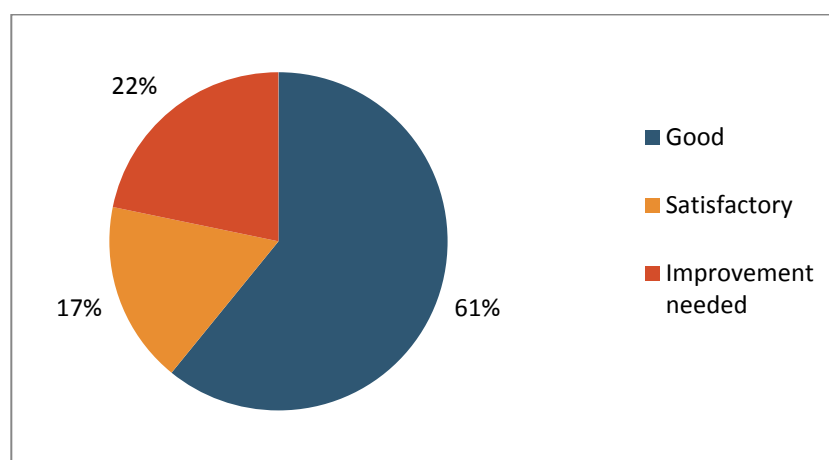
61. The good interactions and discussions we saw in 2015 were focused on achieving shared understanding of the topics and on driving the process towards the key deliverables (risk assessments and joint decisions). During the physical meetings, there was an active exchange of views between the consolidating supervisors and host members for the majority of the colleges, as well as an appetite to challenge and to understand each other's assessment under a good spirit of cooperation and collaboration. There were high-quality, in-depth conversations in some of the colleges, particularly in connection with the group and individual risk assessments, and there was open and frank information sharing among college members. In general, supervisors (both consolidating and host supervisors) were active in raising questions to the bank representatives and in challenging them on topics they were concerned about.

62. It has to be noted that, in some colleges, the discussions rarely developed to multilateral conversations, remaining on a rather bilateral level between consolidating supervisors and the most active host authorities. In other cases, the lack of risk expertise from host authorities (in providing technical background information for the risk assessment) hindered in-depth discussions. These colleges received a satisfactory score, highlighting the need for further improvement.

3.3.4 Minutes of the meetings

63. In the majority of colleges (61%), minutes or conclusions from meetings were prepared and shared, inviting members to provide their comments, while the final minutes reflected the suggested changes. In some colleges, the minutes also served as an agreed 'to-do list', which is considered good practice. However, in five colleges (out of 23), minutes have still not yet been prepared and shared, or their circulation was organised with a significant delay (months after the meeting), which undermined their relevance and importance. In a few colleges, minutes were prepared, though there was no clear invitation to college members to provide comments.

Figure 12 – Minutes of the meetings



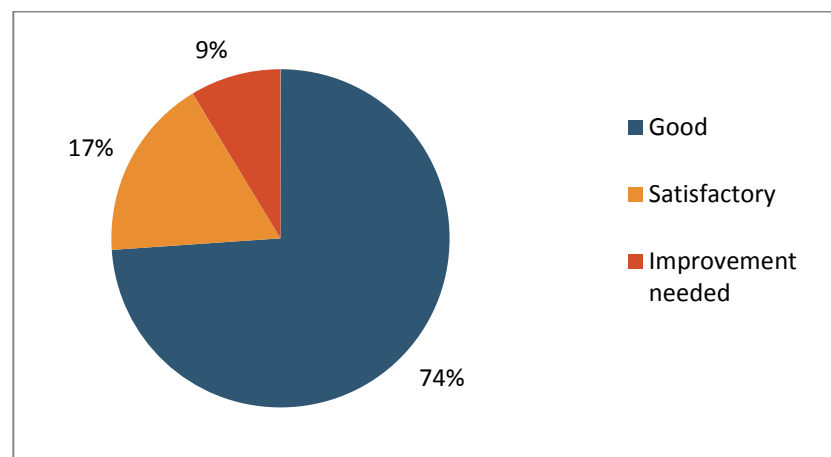
3.4 Responsiveness of colleges

64. The EBA staff continued to provide feedback to the consolidating supervisors of closely monitored colleges in 2015 on a variety of aspects of the colleges' functioning. The extent to which each consolidating supervisor followed up on these recommendations, as well as the extent to which comments from other college members were considered, is reflected in the assessment of the overall responsiveness of the college.

65. The EBA staff noted a good level of responsiveness in almost three quarters of the colleges, where the consolidating supervisor was eager to cooperate with the other college members, including the EBA, on different matters and swiftly provided responses and follow-up. However, the EBA staff would welcome improvement at two colleges, particularly in the cooperation of the consolidating supervisor, given that the EBA staff's

requests were either not addressed or there was a significant delay in doing so. In general, the EBA staff invites the consolidating supervisors to revisit their approach in organising interaction with host college members in a multilateral setting, in this way also facilitating the EBA's participation.

Figure 13 – Responsiveness of the college



3.5 EBA staff support and guidance

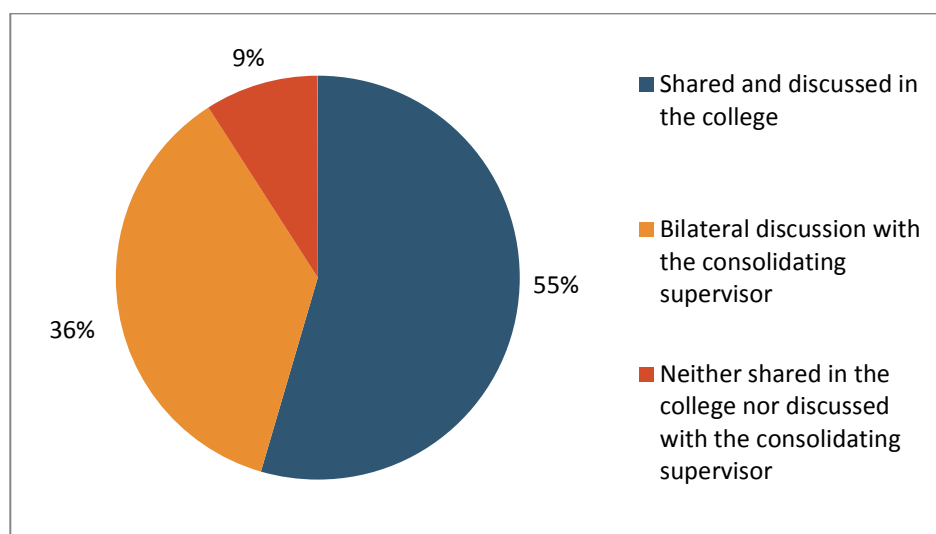
66. In preparation for and during college meetings, the EBA staff was actively contributing to achieve the above objectives, mainly via:

- a) providing topic suggestions to the agenda, in order to make sure that all relevant items and risks are covered;
- b) announcing the EBA Colleges Action Plan each year, with key topics referred to particular supervisory attention;
- c) actively engaging in discussions at meetings, and facilitating and promoting college members' involvement;
- d) delivering presentations at college meetings, focusing on relevant risks and vulnerabilities based on the EBA's Micro Risk Dashboard and also on relevant policy updates;
- e) identifying potential issues among college members on various topics (i.e. risk assessment, calculation of capital requirement, level of required capital on group and solo level, and capital allocation within the group) and proactively intervening by initiating trilateral/multilateral discussions; and
- f) contributing with observations/suggestions at college meetings on specific topics (e.g. recovery plan assessment) and providing feedback to the consolidating supervisor after the meeting.

67. The active participation of the EBA staff during college meetings was perceived by competent authorities as a positive contribution, particularly with regard to the interpretation of the provisions of the various policy products.

68. The EBA concluded the 2014 assessment of the functioning of closely monitored colleges in early 2015 and provided the outcome (a scorecard with detailed explanation) to the BoS members, as well as to the consolidating supervisor of each individual college. The EBA promoted the sharing of the assessment in the college framework in order for the host supervisors to be informed equally, and the EBA staff explained the individual assessments in many colleges during physical meetings in the first half of 2015. The EBA welcomed college discussions on the topic (in 12 colleges), as many colleges were keen to understand the results of the yearly assessment and to take steps towards further improving the functioning of the college. In other cases, the consolidating supervisor favoured only a bilateral discussion with the EBA staff regarding the results of the yearly assessment, and made efforts in building the lessons learnt into their day-to-day activities of managing the college.

Figure 14 – Information on how colleges approached the EBA’s 2014 yearly assessment



4. Group risk assessment and group liquidity risk assessment

69. The year 2015 was the second year in which the consolidated supervisory authorities and national supervisory authorities involved in the supervision of EEA cross-border banking groups conducted both the group risk assessment and the group liquidity risk assessments¹² under the new framework provided in Commission Implementing Regulation (EU) No 710/2014.

70. Both risk assessment reports serve as core documents that enable competent authorities to analyse and understand the overall risk and liquidity risk profiles of supervised banking groups for the purpose of reaching joint decisions on the adequacy of own funds and liquidity, respectively.

71. As already mentioned, the process for developing and finalising both risk assessments is stipulated in Commission Implementing Regulation (EU) No 710/2014. In addition to the process elements, this Regulation also contains a number of templates that competent authorities shall use to prepare both individual and group risk assessments. These templates guide competent authorities through the whole risk assessment process and elements of SREP, while still remaining flexible enough to allow the inclusion of specific risk elements relevant to a particular group. As such, the templates introduce common structure and language, which facilitate the assessment and also allow the comparison of risks across all banking groups.

72. The EBA staff monitored three main elements of risk assessments: (i) the planning phase; (ii) the process for developing the group risk assessments; and (iii) the content of the group risk assessments. The main findings from the assessment of these elements are the following.

- a) All closely monitored colleges communicated the timelines for the joint risk assessment and joint decision process.
- b) All competent authorities have gained considerable experience in risk assessments over the last couple of years. In 2015, the EBA staff saw efforts to improve the process for developing the group risk assessments.
- c) All closely monitored colleges used mandatory templates for the group and individual risk assessments; however, some of them either didn't fully complete all sections of these reports, or failed to develop or communicate individual reports for some of the subsidiaries of the group or for the EU parent institutions on a solo basis.

¹² Authorities have conducted group risk assessments since 2011, while group liquidity risk assessments have been conducted since 2014.

- d) An overall good quality of the group risk assessments was observed, with all material risks being captured and sufficiently detailed information being provided, which enabled the development of a good and shared understanding of the risks to which groups are exposed.

73. Section 4.3 discusses how supervisory authorities addressed key topics for supervisory attention in 2015.

4.1 Process

74. This section considers the process elements, taking a closer look at the planning process and the process for developing the final risk assessments. The EBA staff monitored those aspects of college work via participation in college meetings and involvement in communications with college members. The EBA staff placed great emphasis on discussions and mutually agreed documents, such as timelines, assessments, etc.

4.1.1 Group risk assessment

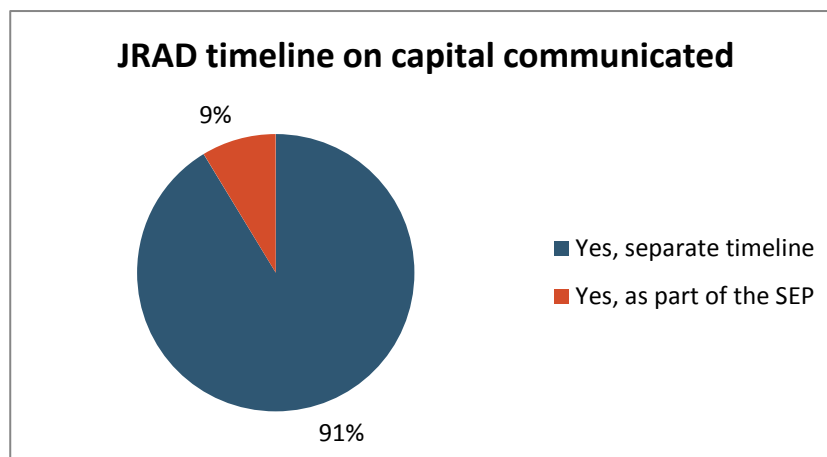
(i) Planning process

75. Based on the statistics collected by the EBA staff, all 23 closely monitored colleges communicated to the EBA the timelines agreed by the supervisory colleges for the planning of the group risk assessments. Compared to last year, when 14% of the closely monitored colleges did not have a clear, mutually agreed timeline, the EBA staff saw significant progress in the quality of the planning process, which is one of the key prerequisites in reaching mutually agreed group risk assessments and joint decisions in a timely manner.

76. As already mentioned in section 2.3, the majority of colleges agreed on a separate timeline from the college SEP, mainly due to the fact that a timeline for the development of group risk assessments and the reaching of joint decisions on capital and liquidity needs to be carefully planned with precise deadlines and a specific degree of granularity envisaged by the regulatory framework.

77. The separate timelines for the capital and liquidity joint decisions often accurately detailed the complete steps of the processes with corresponding dates and provided sufficient notice to the college members for the process; however, an issue noted in 2015 was that, in a number of colleges, the hosts did not take this opportunity to respond to the consolidating supervisor to say that the timelines did not fit with their internal approval procedures. This resulted in unnecessary delays to joint decision processes.

Figure 15 – Joint decision timeline on capital communicated



78. Judging by the experience from 2015, the EBA staff concludes that the planning process is firmly embedded in supervisory practices.

(ii) Process for developing and finalising the group risk assessment report

79. When analysing the process for developing the group risk assessment report, the EBA staff identified several key features that are considered important for designing a well-structured and transparent process. These features include: (i) usage of templates from the Commission Implementing Regulation (EU) No 710/2014, including all relevant annexes (i.e. Excel files); (ii) sharing of individual reports with the college; (iii) timely circulation of risk assessments before the college meetings; and (iv) discussions at the college meetings.

80. Virtually all colleges used mandatory templates for both the group and individual risk assessments, thus fully complying with the regulatory requirements. The majority of the colleges also used relevant annexes. However, some colleges had not fully completed all parts of the annexes, especially those related to the breakdown of the SREP capital requirements by risk. Without providing risk-by-risk SREP capital requirements, one can hardly conclude which risks need to be covered by additional capital requirements or, on the other hand, which risks are adequately covered.

81. Individual risk assessment reports were not shared within all colleges. In some cases, they were shared after the group risk assessment was finalised (sometimes several months after), thus adding no value to the whole process for developing the group risk assessment report. In this respect, the EBA staff encourages all consolidated authorities to distribute individual reports.

82. The timely circulation of risk assessments before college meetings still remains a challenge for several colleges. Though in almost all cases the documents were circulated before college meetings, the requirement for timely circulation—that is, at least one week before the meeting—was not always followed, with documents being shared only 1-2 days before the meeting. The timely circulation of the risk assessment documents is good practice, since it

gives an appropriate opportunity to college members for reviewing and analysing these documents so that the maximum value can be obtained from the process.

83. In some cases, the final group risk assessment report was not clearly communicated or circulated, which caused confusion and uncertainty regarding the deadlines for reaching the joint decision. Without clearly communicating the final risk assessment, the college members are not able to plan their work, especially when it comes to the next stage in the whole process—that is, the work on the joint decision document. On top of that, it causes doubts about the possibility of requesting the EBA’s advice or mediation (more details on this are provided in section 5.1 of the report).

84. The best practice observed by the EBA staff shows that mutually agreed comprehensive group risk assessment can hardly be reached without organising a college meeting dedicated to presentations and discussions of both individual and group risk assessments. The experience from 2015 demonstrated that the majority of colleges held a meeting specifically dedicated to risk assessments. The remaining two colleges, which held a conference call, are encouraged to organise a physical college meeting for the purpose of discussing risk assessments in order to get direct feedback from the college members and also to take account of all risks relevant for the group.

4.1.2 Group liquidity risk assessment

(i) Planning process

85. According to the statistics collected by the EBA staff, all 23 closely monitored colleges communicated to the EBA the timelines agreed by the supervisory colleges for the planning of the group liquidity risk assessments. This shows significant progress in the quality of the planning process compared to last year, when 14% of the closely monitored colleges did not have a clear mutually agreed timeline. The results are identical to the planning process for the purpose of the group risk assessments, as both processes are mutually intertwined and require a high degree of coordination.

(ii) Process for developing and finalising the group liquidity risk assessment report

86. For many colleges, the process for developing and finalising the group liquidity risk assessment report mirrored the process for the group risk assessment report, as both processes went in parallel. Therefore, the observations of the EBA staff are, to a large extent, similar. Also, the same elements of the processes were analysed.

87. All colleges except one used binding templates for both the group and individual liquidity risk assessments, therefore fully complying with the Regulation.

88. As far as the sharing of individual risk assessment reports is concerned, one could observe room for improvement. In some cases, the reports were shared only a few days before the

college meeting, thus providing little time to college members for reviewing them and preparing for the college meeting, while in others they were not shared at all.

89. The submission of the final liquidity risk assessment report to all college members is a key step in the process, as it triggers the one-month period/deadline specified in the CRD for reaching the joint decision on liquidity. However, several colleges did not clearly communicate or share the final document, which establishes the starting point and, at the same time, the deadline for reaching the joint decision on liquidity.

90. As highlighted in the section on the group risk assessment, all colleges are encouraged to organise a physical college meeting, which is considered the best practice for discussing group liquidity risk assessment.

4.2 Content

91. This section focuses on the content of the group risk assessments, its overall quality, and its coverage of material risks. Since there are natural connections between the group risk assessment and the group liquidity risk assessment (which feeds into the group risk assessment), both assessments are discussed together in one section.

92. After analysing the risk assessments, the EBA staff concluded that the overall quality of the group risk assessments was good for the majority of the colleges. All material risks were included in the risk assessments and they were sufficiently detailed to provide for a good understanding of the risks to capital and liquidity. Thus, the EBA staff concluded that the risk assessments performed by the supervisory authorities provided an appropriate picture of the banks' risk profiles.

93. On the other hand, several shortcomings were identified. These included missing risk reports for the EU parent institutions, missing forward-looking elements, or missing information on supervisory measures.

94. Commission Implementing Regulation (EU) No 710/2014 stipulates that the risk assessments should be prepared for the group, the EU parent institution, and all subsidiaries domiciled in the EU member countries. The EBA staff identified that the risk assessment was not prepared for the EU parent institution in all cases. In these cases, EU parent institutions were covered only within the group risk assessment. The EBA staff encourages all supervisory authorities to prepare the risk assessment also for the EU parent institution in order to fully identify the risks and vulnerabilities arising from them.

95. As far as the forward-looking view is concerned, Commission Implementing Regulation (EU) No 710/2014 assumes that the risk assessments take into account the outlook for the next assessment period. These forward-looking elements (e.g. expected changes in strategy or business model, and expected development in the risk profile) are vital parts of the assessment, as the requirements for additional own funds stemming from the risk assessments

are set for the upcoming year. Therefore, the EBA staff invites all supervisory authorities to further develop their assessments in this respect.

96. Information on the supervisory measures, both proposed and already existing, should be included in the risk assessment since it is an integral part of the analysis that provides further insights regarding compliance with existing measures. It also shows the measures suggested for addressing the deficiencies identified during the current risk assessment.

4.3 Key topics for supervisory attention in 2015

97. Each year, within its work on risks and vulnerabilities in the European banking system, the EBA identifies risks that are of concern to the regulatory and supervisory community. Based on the outcome of this work and on the outcome of other relevant policy work, competent authorities supervising cross-border banking groups under the colleges framework were invited to pay particular attention to the following topics in 2015.

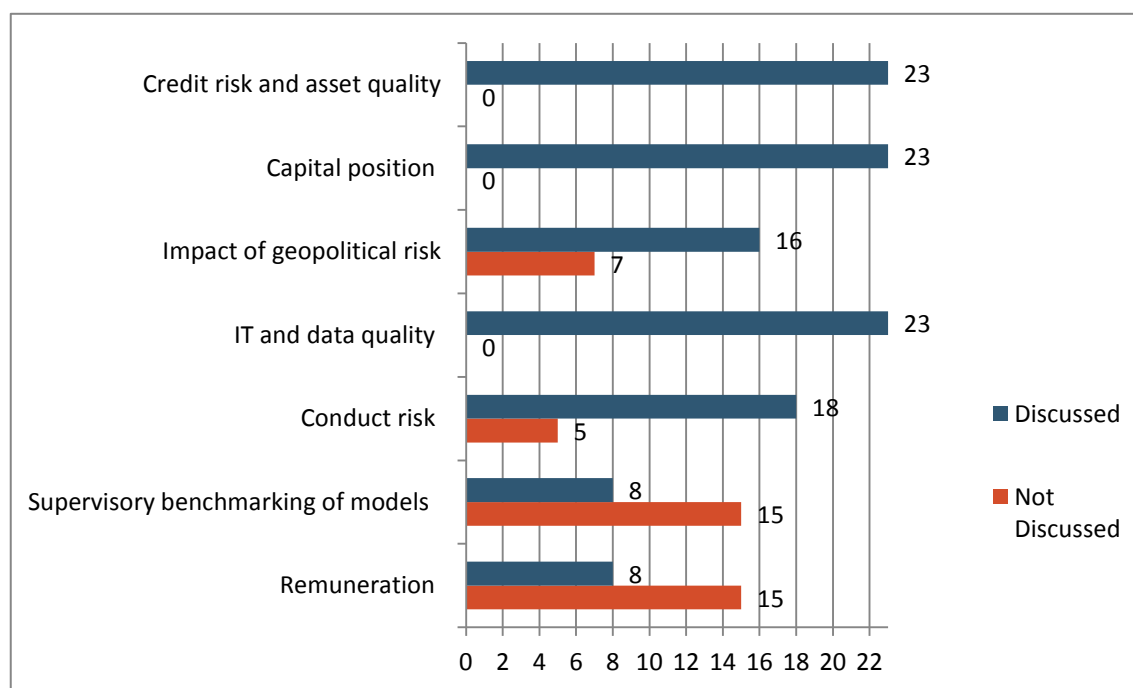
- a) Credit risk and quality of assets;
- b) Capital position (mostly in terms of capital plans);
- c) Impact of geopolitical risks;
- d) IT risk and data quality;
- e) Conduct risk;
- f) Supervisory benchmarking; and
- g) Remuneration.

98. Figure 16 provides information on the number of closely monitored colleges discussing the topics listed above. All of these colleges have brought in the colleges' agenda discussions on credit risk and asset quality, institutions' capital positions, and IT and data quality issues. In most cases, these discussions were organised within the development of the group risk assessment, including consideration and assessment of individual SREP elements. On the other hand, discussions on conduct risk were organised in 18 of the 23 closely monitored colleges—an observation that reflects the increasing supervisory attention afforded to this risk—while almost 70% of the closely monitored colleges discussed the impact of geopolitical risk, as deemed relevant based on the cross-border presence of the banking group. Supervisory benchmarking of models and remuneration were less reflected in the college discussions. Going forward and taking into account the importance of these topics, the EBA has decided to include them among key topics for supervisory attention in 2016 (see also Section 3 of 2016 EBA Colleges Action Plan).

99. The EBA staff continues to update the list of key topics for supervisory attention on an annual basis and promotes college discussions on these issues in an effort to ensure that the

competent authorities of cross-border banking groups explore the unique opportunity provided to them in order to assess these issues from individual and group perspectives, and to consider the consequences these may have on the viability of their business models in the short term and the sustainability of institutions' strategies in the long run.

Figure 16 – Specific topics for supervisory attention



4.4 EBA staff support and guidance

100. The EBA staff closely cooperated with consolidating supervisors and other college members while preparing the group risk assessments. In addition to the ongoing interactions with the closely monitored colleges, the EBA staff:

- provided guidance on the application of the technical standards that relate to the process for developing and finalising the risk assessment (planning process, timetables, dialogue between authorities, individual and group assessments, circulation of documents, etc.);
- assisted in using binding templates, which should constitute an integral part of the risk assessment, including by guiding authorities on specific elements (e.g. annexes with risk-by-risk capital requirements);
- provided feedback on individual risk assessments; and
- contributed to the discussions on group risk assessment by presenting the institution-specific risk dashboard.

5. Joint decisions on capital and liquidity

101. As of the end of December 2015, all joint decisions on capital and liquidity were either agreed in principle or were formally finalised. The EBA staff has identified the following findings, which are further elaborated in Sections 5.1 to 5.4 through the monitoring of the processes and the assessment of the content of those joint decisions.

- a) For 74% of the closely monitored colleges, the joint decision processes on capital and liquidity were assessed as ‘satisfactory’ or ‘good’, which, even though indicating a high level of adherence to the regulatory requirements, also signals some challenges in maintaining the progress achieved in the previous years.
- b) While the overall assessment of the quality of capital and liquidity joint decisions demonstrates marginal positive trends, the expectations of addressing issues that were stressed in previous years’ assessments still remained a challenge in 2015.
- c) Some colleges circulated draft joint decision documents or organised a consultation on those documents with college members at the same time or after the submission of the draft documents to the parent entity of a group—an approach that is not in accordance with the regulatory framework.
- d) In some cases, there was no information on the breakdown of the SREP capital requirements by risk type, significantly affecting the reasoning of the capital joint decision document.
- e) For 65% of the closely monitored colleges, capital requirements are not expressed in terms of TSCR, while challenges also remain regarding the mix of Pillar 1 and Pillar 2 requirements with combined buffers or capital planning expectations.
- f) In general, the reasoning supporting liquidity joint decisions is limited and fails to make appropriate links to the group liquidity risk assessment report and individual liquidity risk assessment reports.

5.1 General observations on the transition from the development of group risk assessment reports to the reaching of joint decisions

102. As of the end of December 2015, all joint decisions on capital and liquidity, regardless of whether they were developed as one or two separate documents, were either agreed in principle (13%)—meaning that the collection of written proof of the agreement from all relevant competent authorities was still in progress—or were formally finalised (87%).

103. Figures 17 and 18 below present the progress achieved in finalising and circulating the group risk assessment reports and reaching the joint decisions on capital and liquidity. Given that the cut-off date for the development of this report was the end of 2015, any activities and progress achieved in January 2016 are not reflected here.
104. The failure to circulate the final group risk assessment and final group liquidity risk assessment reports in 26% and 35% of the closely monitored colleges, respectively, created confusion as to the start of the four-month period for reaching the joint decision on capital and the one-month period for reaching the joint decision on liquidity. One should note the importance of having these dates clearly marked, not only for ensuring compliance with the requirements of the Level 1 text (Article 113(2)(a) and (b) of the CRD), but mostly for allowing all college members the possibility to have a shared and clear understanding of the time period available for developing and providing their input to the joint decision document, as well as for exercising their right to request the EBA's advice or trigger binding mediation. This information is also relevant and important for the EBA in order to be able to exercise its statutory powers given by the legislation and the EBA Regulation.
105. A relevant observation on the joint decision process is the incorrect practice followed by some consolidating supervisors of announcing the start of the four- and one-month periods for reaching the joint decisions with the circulation of the draft (or even final pending-signature) joint decision documents, instead of the final group risk assessment reports.
106. In exceptional cases, the EBA staff observed significant time gaps between the discussion on the group risk assessment reports and the discussion on the draft joint decision documents (in one case, that gap was up to six months). Such delays resulted in joint decisions reached outside the time limits envisaged by the CRD (i.e. despite the update of the joint decisions being organised within the limit of 12 months, approximately one third of the closely monitored colleges did not meet the time limits of the four- and one-month periods for the reaching of the joint decisions). In addition to non-compliance with the regulatory requirements, these delays hindered the efficiency and transparency of the process, to a large extent affecting not only the joint decision process, but also the overall quality and frequency of interaction between the college members.

Figure 17 – State of play with the circulation of final group risk assessment reports and the reaching of joint decisions on capital

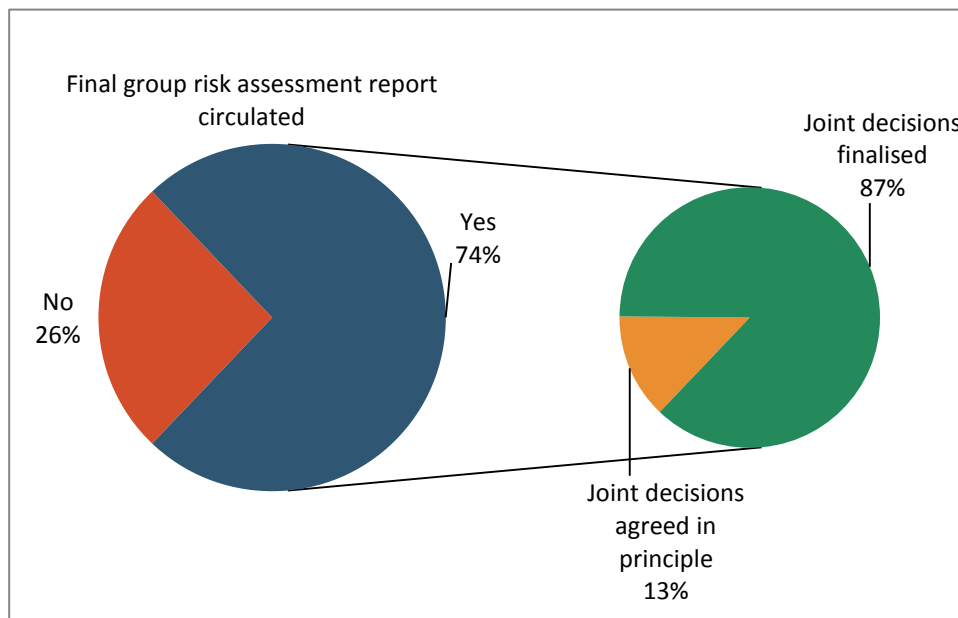
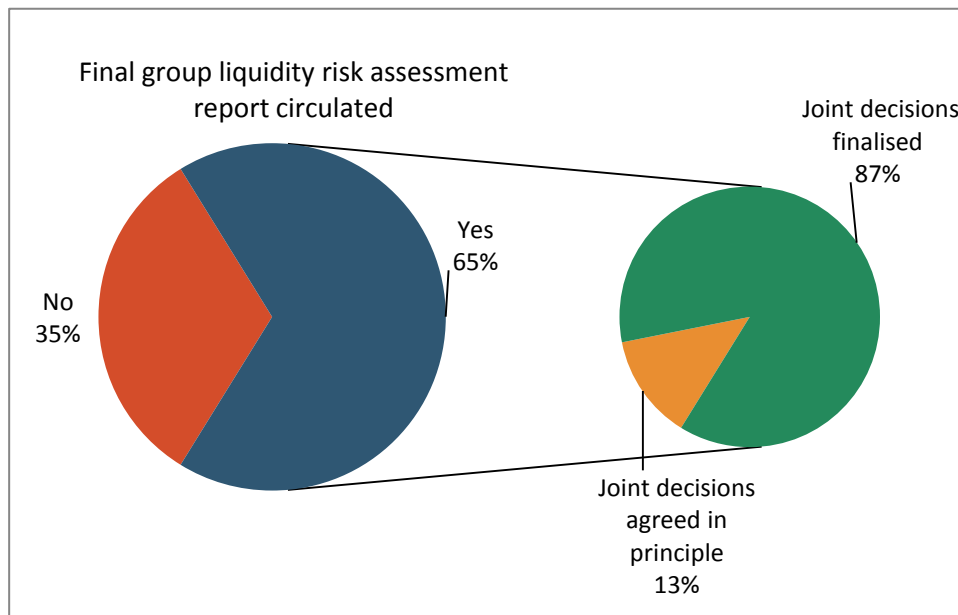


Figure 18 – State of play with the circulation of final group liquidity risk assessment reports and the reaching of joint decisions on liquidity

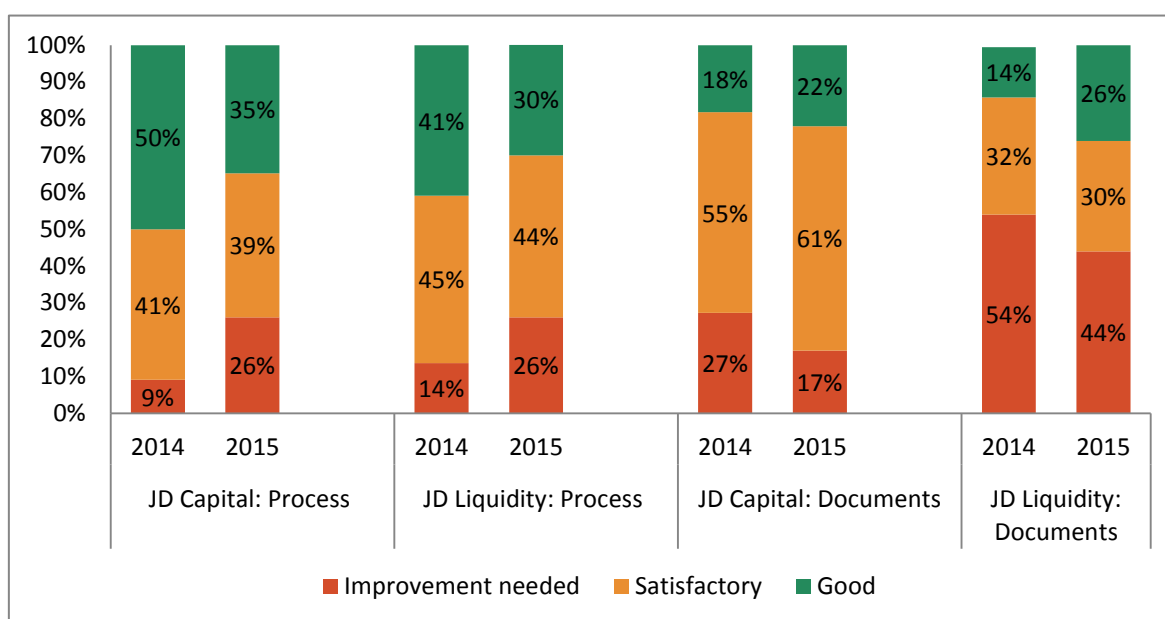


5.2 Process and content of the joint decision documents on capital and liquidity

107. In 2015, a number of approaches followed by some of the consolidating supervisors have noticeably affected the effectiveness of the joint decision processes on capital and liquidity, and the quality of the joint decision documents. As shown in Figure 19 below, for 74% of the closely monitored colleges, the joint decision process for capital and liquidity has been

assessed as ‘satisfactory’ or ‘good’ (compared to 91% for the capital and 86% for the liquidity in 2014). That outcome, despite indicating that, for the majority of the colleges, the joint decisions are organised in accordance with the regulatory requirements, also signals some challenges in maintaining the progress achieved in the previous years. While the overall assessment of the quality of capital and liquidity joint decisions demonstrates marginal positive trends, the expectations of addressing issues that have been stressed in previous years’ assessments still remained a challenge in 2015¹³. Sections 5.2.1 and 5.2.2 discuss these issues in detail.

Figure 19 – Assessment of processes and content of joint decision documents



5.2.1 Process for the development and finalisation of the joint decisions

108. Looking at further aspects of the joint decision process, the EBA staff observed that, for some colleges, the processes on capital and liquidity joint decisions were run as one, reflecting the consolidating supervisor’s approach to addressing both of the joint decisions in one document. Though there are no concerns arising from such an approach, in terms of process, the EBA staff underlines the importance of respecting the time limits foreseen by the Level 1 text for both the capital and liquidity joint decisions, and of reaching outcomes that reflect all the relevant information available up to the point of the joint decision, with forward-looking aspects.

109. In 2015, there was a significant increase in the circulation of draft joint decision documents to the college organised at the same time, or after, the submission of the draft

¹³ Further details on the potential impact of the issues for the cross-border banking groups and the proper functioning of the Single Market will be discussed in the EBA’s 2016 supervisory convergence report.

document to the parent entity of the group. Such an approach created mainly the following issues.

- a) Confusion on the extent to which the conclusions of the joint decision document were supported by all college members.
- b) It prevented the EBA staff from providing its comments, particularly on possible improvements needed in the joint decision document at an early stage.
- c) It was unclear whether further comments or changes could still be addressed after the sharing of the document with the parent entity.
- d) Such an approach is not compliant with Commission Implementing Regulation (EU) No 710/2014.

110. In terms of consultation and discussion on the draft joint decision document within the college framework, the EBA staff again observed an increased number of colleges for which those discussions were organised only after the consultation with the parent entity of the group, and, in some cases, only in the form of a written procedure. EBA staff recognises, however, that, for the majority of these colleges, there was an exchange of information on the proposed capital requirements (i.e. SREP estimates) and on capital conservation buffers applicable at national level in the form of conference calls held during the summer of 2015. Given that the joint decision document is a substantial outcome of the colleges' work and its quality is assessed not only against the additional requirements imposed to supervised institutions, but also against the reasoning supporting those conclusions, the EBA staff stresses the importance of multilateral discussions being organised within the college framework for all aspects of the joint decision document (i.e. memoranda items, conclusions of the joint decision, and reasoning supporting conclusions) at a time when comments from college members can be taken on board.

111. With regard to the consultation on the draft joint decisions with the parent entity, details of this consultation, in terms of comments submitted by the group or information on the treatment of those comments by the consolidating supervisor, were shared in the majority of the colleges. In cases where such information was not shared, the EBA staff raised concerns with the consolidating supervisor.

112. On the other hand, there were cases where the consolidating supervisor opted for a different approach in terms of discussing the outcome of the joint decision only when this was finalised between college members; for the majority of these cases, the EBA staff did not observe, up to now, any information sharing within the college framework on those discussions.

5.2.2 Content of the joint decisions on capital and liquidity

(i) Scope of the joint decision documents

113. It is very important that the consolidating supervisor, with input from all college members, provides complete information on the mapping (Annex I of the RTS on supervisory colleges) of group entities inside and outside the EU (and for the SSM colleges for the group entities established both in participating and non-participating Member States), including information on the use of prudential and liquidity requirements for these entities. This will enable all college members to develop a clear understanding of the entities under the scope of the joint decisions pursuant to Article 113 of the CRD and to assess the completeness of the information—in terms of coverage of entities—and compliance with regulatory requirements (i.e. decisions are taken for all entities that are subject to prudential and liquidity requirements on a solo basis).

114. For some entities where there were no additional capital requirements or liquidity measures taken as a result of the joint decisions, and where there were no prudential or liquidity requirement waivers in place, it was observed that the joint decision documents either failed to make any reference to there being no additional capital requirements or liquidity measures imposed, or the references were limited. More importantly, the joint decision covering these entities should be supported by appropriate reasoning linked to the supervisory assessment. The same principle also applies for the parent entity of a group for which prudential and liquidity requirements have not been waived—that is, the joint decision document should also cover the parent entity on a solo basis (and the SREP report and liquidity risk assessment report should also be provided for the parent entity on a solo basis).

115. A relevant finding on such mismatches in terms of coverage of entities is that, for some colleges, the EBA staff observed that joint decisions covered institutions of the group for which no SREP reports or liquidity risk assessment reports were developed on a solo basis.

(ii) Reasoning supporting capital joint decisions

116. Even though significant efforts towards improving the joint decision reasoning were observed in the majority of colleges, a significant number of colleges failed to complete all relevant aspects of the SREP report templates and the group risk assessment report template (Annexes 1 to 4 of the Commission Implementing Regulation (EU) No 710/2014), and, in particular, Table 2 of Annexes 2 and 4, including the risk-by-risk decomposition of capital requirements. This observation stands true, especially for the aspects of the joint decision document covering consolidated requirements and specific group entities. That drawback significantly affected the link between the SREP outcome, as documented and shared in the form of the SREP reports, and the capital requirement formulated in the joint decision document. The decomposition of the proposed SREP capital requirement by risk type is an integral part of the group risk assessment and a vital link between the risk assessment and the joint decision, and it should inform the reasoning of the joint decision.

117. The risk-by-risk decomposition of the proposed capital add-ons at group level and each subsidiary level practically explains the supervisors' view on the risks that are not covered, or not fully covered, by Pillar 1, and strengthens the reasoning supporting the prudential requirements as a result of the capital joint decision. This facilitates not just the dialogue between college members, but also the discussion with the group and its entities to which the joint decision applies. Without including and providing this information to the college, it would be difficult to develop a clear and shared understanding of the proposed prudential requirements among the college members. In addition, the transparent decomposition of the capital add-on at the group level facilitates detailed discussion among supervisors and helps prevent any potential overlap between group and individual requirements addressing the same risk.

118. Another observation with regard to the joint decision reasoning is the approach followed by other consolidating supervisors, where, even though the group risk assessment report template and individual SREP reports were completed—including Table 2 of Annexes 2 and 4, and the decomposition of additional capital add-ons by risk type included in the capital joint decision document—there was still room for improvement in enhancing the links between the group risk assessment report and the reasoning supporting the joint decision document. For some of these cases, it was obvious from the interaction with the consolidating supervisor that they opted to provide more information of their assessment within the bilateral discussions with the supervised entities, and not as part of the joint decision document.

119. As was the case in 2014, the EBA staff observed cases of host authorities that failed to make an appropriate link between the outcome of SREP and the conclusions of the capital joint decision. This was either due to macro-prudential requirements being used in place of the outcome of SREP, or by host authorities requesting additional capital for the entities under their supervision to be set at the same level with the requirements for the group, failing to establish relevant links between the outcome of SREP assessment and the additional capital requirements.

(iii) Formulation of additional capital requirements

120. Even though the developments in the institutional setting at the end of 2014 affected, to a great extent, the way that additional capital requirements were formulated and a certain degree of convergence was observed, one can detect a significant number of joint decisions in which additional capital requirements, for some of the entities of the group or for the group itself, were formulated exclusively in terms of Common Equity Tier 1 (CET1). The SREP guidelines, which came into force as of 1 January 2016, foresee the harmonised articulation of the additional own-fund requirements in terms of the TSCR. In addition to this ratio, the competent authorities are expected to set a composition required for the additional own funds in terms of at least Tier 1 (T1) and CET1.

(iv) Combined buffers or capital planning requirements

121. In 2015, there was a substantial improvement in the number of joint decision documents that included references to the capital conservation buffer and the combined buffer. However, for a significant part of these joint decisions, the references were not clear in terms of the actual level applicable in the Member State.

122. In addition, the EBA staff identified many cases in which the capital conservation buffer or the combined buffer were not included in the joint decision document as memoranda/information items, but rather as part of the additional capital requirements stemming from the joint decision process. It is important to ensure that there is a clear differentiation of the articulation of the minimum SREP requirements, which must be met at all times and which are under the scope of the joint decision process, from any element of the combined buffer in the joint decision. Imposing buffer requirements as part of additional capital requirements creates confusion for the recipient between the formal minimum requirement and a 'useable' buffer—the imposition of which is not under the scope of the joint decision reached by the relevant competent authorities. For example, the requirement to maintain a capital conservation buffer according to Article 129(5) of the CRD is not part of the institution-specific capital requirement imposed based on Article 104(1)(a) and is subject to a joint decision as per Article 113 of the CRD. The same provision applies to the countercyclical capital buffer, pursuant to Article 130(5) of the CRD. There are different, specific procedural steps for applying these buffers, as well as restrictions on distributions in case buffer requirements are not met (Article 141 of the CRD). Both the setting and the breaching of the CCB or the minimum capital requirement entail different processes and measures.

123. Further, the EBA staff identified approaches adopted by some home or host supervisors where capital planning requirements or capital expectations were mixed and included alongside additional own-fund requirements imposed as a result of Article 104(1)(a) and Article 113 of the CRD. In other cases, the formulation of capital requirements in joint decisions within the same banking group included binding and non-binding requirements depending on the approaches followed by competent authorities. Such approaches create confusion among fellow supervisors, institutions and investors on the capital requirements that are binding or on possible restrictions on distributable amounts—an issue that has also been reflected in the feedback provided by parent entities that have been consulted on the draft joint decision documents.

(v) Other memoranda items

124. Article 10 of the Commission Implementing Regulation (EU) No 710/2014 provides the elements of the capital joint decision document, which, apart from the conclusions on the capital adequacy and additional capital requirements, also includes memoranda items like the capital buffers pursuant to the CRD, the EBA-relevant recommendations, or other macro-prudential measures. In addition, it requires information on the current level of own

funds, aiming to provide important information to college members and to include the information both in terms of SREP findings and in terms of capital requirements. In 2015, the EBA staff observed an increase in the number of colleges for which such information is omitted.

(vi) Findings on liquidity joint decisions

125. While the EBA staff identified some improvements on the reasoning supporting the conclusions on liquidity adequacy or liquidity measures imposed at the consolidated level, it remains a general observation that the reasoning supporting liquidity joint decisions, or relevant aspects of joint decision documents, is limited and fails to make appropriate links to the group liquidity risk assessment report and individual liquidity risk assessment reports. In addition, there have been cases where entities of the group have been assigned score '3' or '4' (scores as per the EBA guidelines on SREP—see Section 2.2. 'Scoring in SREO'), indicating significant matters or material findings in the liquidity supervision of group entities; however, those concerns were not reflected in the joint decision document and no specific qualitative or quantitative measures were taken or included in the joint decision document.

126. With regard to the inclusion of memoranda items, such as Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), or relevant national ratios applicable to a Member State before 1 October 2015, the majority of the liquidity joint decision documents failed to include such items.

5.3 EBA staff support and guidance

127. In 2015, the EBA staff supported the organisation and the finalisation of the joint decision processes on capital and liquidity, participating in the college activities and providing its feedback as early as the planning phase. Further to the ongoing interaction with consolidating supervisors and all college members, and to the comments submitted in all draft joint decisions developed by the 23 closely monitored colleges, the EBA staff:

- a) Offered training for experts from competent authorities involved in the organisation and participation in colleges. In particular, the EBA organised a dedicated workshop on the implementation of the technical standards on supervisory colleges' functioning and the details of the capital and liquidity joint decisions. In addition to this training held in Q1 of 2015, in Q4 of 2015, the EBA staff organised training on college activities and joint decisions dedicated to experts from one competent authority.
- b) Provided feedback (e.g. in the form of letters, conference calls, and bilateral meetings) and alerted consolidating supervisors on the approaches adopted during the course of the year that raised concerns around compliance with the provisions of the Single Rulebook. Such an approach and interaction was also followed for host authorities when their methodologies were not assessed as being compliant with the Level 1 and Level 2 provisions.

- c) Issued the EBA opinion on the trigger, calculation and transparency of the Maximum Distributable Amount (MDA).¹⁴

¹⁴ <http://www.eba.europa.eu/-/eba-calls-for-more-certainty-and-consistency-in-the-application-of-restrictions-to-profits-pay-outs-to-restore-capital-adequacy>.

6. Joint decisions on the assessment of group recovery plans

128. With the implementation of the new recovery and resolution framework under the BRRD in January 2015, supervisory colleges are now required to assess group recovery plans for cross-border banking groups and reach joint decisions on these recovery plans.

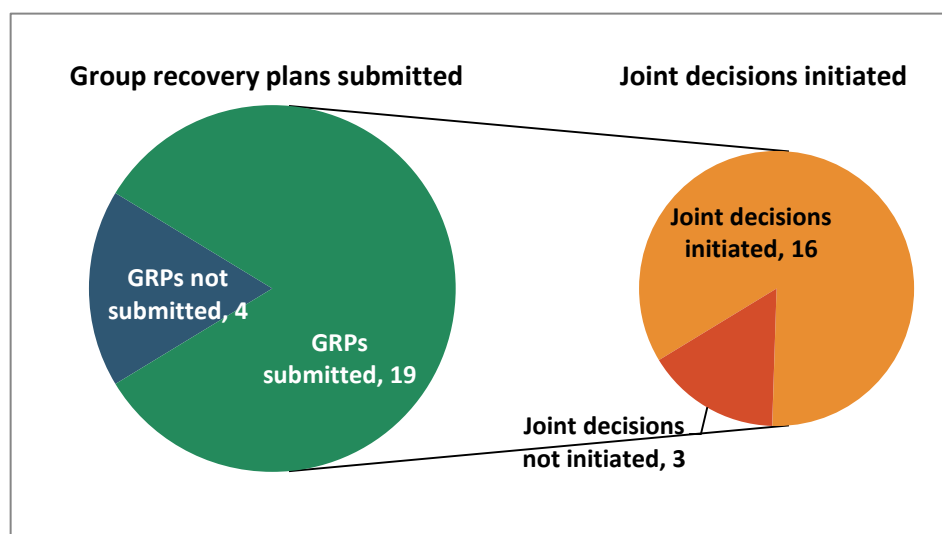
129. In 2015, a total of 19 of the 23 group recovery plans were submitted by the banking groups of closely monitored colleges. The formal joint decision process has been initiated for the vast majority of the submitted plans. A substantial challenge faced by a number of the supervisory colleges was the treatment of pre-existing individual recovery plans, or of requests from host authorities for individual plans for subsidiaries of cross-border banking groups, which were made outside the joint decision process established in the BRRD.

6.1 Main observations and challenges

6.1.1 Key statistics

130. In 2015, a total of 19 group recovery plans were submitted by banking groups for supervisory review from the 23 closely monitored colleges. The joint decision process was initiated for the vast majority of institutions; however, in a few cases, the joint decision process did not start because the recovery plan was submitted before the BRRD's transposition into the national law of the consolidating Member State.

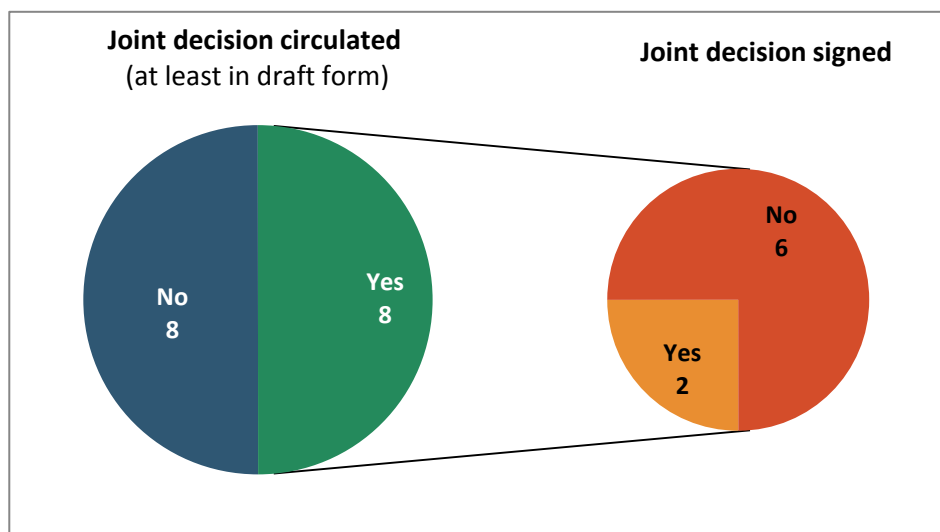
Figure 20 – Submission of group recovery plans and status of joint decision processes



131. The majority of the recovery plans were submitted in the second half of the year, meaning that, by the end of 2015, many joint decision processes were still at a relatively early stage.

Consequently, of the cases where the joint decision process was initiated in 2015, only in half of them was the joint decision document circulated among college members in 2015—some in draft form (i.e. the joint decision was still under discussion by the supervisory college members). In turn, the joint decision process was only completed in two colleges in 2015.

Figure 21 – Status of joint decisions



6.1.2 Procedural aspects

132. Article 6(2) of the BRRD requires that the assessment of a recovery plan is carried out within six months of the submission of the plan by the institution to the competent authority. With regard to the group recovery plans, Article 8(2) of the BRRD specifies that a joint decision should be reached within four months of the date of sharing the group recovery plan by the consolidating supervisor within the college. These two overlapping deadlines imply that there is some time—up to two months—between the submission of the recovery plan by the institution and its transmission to other competent authorities. During that time, a consolidating supervisor may prepare its preliminary assessment and circulate it to relevant college members, together with the group recovery plan, in order to make the joint decision process as efficient as possible.

133. The experience from 2015 shows that the majority of the recovery plans were shared among college members within the two-month timeframe from their submission by institutions, and often the plans were also accompanied by a preliminary assessment prepared by the consolidating supervisor. The plans were shared either by uploading them to a secure IT web platform or by transmitting them via encrypted e-mails. In some cases, the consolidating supervisors showed reluctance to transmitting the group recovery plans to the other college members as a result of confidentiality-related administrative provisions.

134. To this extent, we note that Article 8(3) of the BRRD is clear in requiring that the period of four months should be given to the supervisory college members for the assessment of the

group recovery plan ahead of reaching the joint decision¹⁵. Even though nothing prevents the parties from reaching the joint decision ahead of the four-month period, the objective of the legislator was to allow sufficient time in the process to discuss the positions of the college members and settle potential disagreements if they arise.

6.1.3 Requests of individual recovery plans

135. At the time of entry into force of the BRRD, at the beginning of 2015, some Member States had already implemented provisions at national level that required some banks under their jurisdiction to submit recovery plans on an individual basis, regardless of whether such institutions were part of cross-border banking groups or not.

136. Therefore, during 2015 a number of supervisory colleges had been faced with pre-existing individual recovery plans, or with requests from host authorities for individual plans for subsidiaries of cross-border banking groups, which were not the outcome of the joint decision process established pursuant to Article 8(2) of the BRRD or the result of individual decisions taken in the absence of a joint decision pursuant to Article 8(4) of the BRRD.

137. While it is not yet possible to draw a clear picture on the number of requests for individual plans (most of the joint decision processes were still ongoing at the end of 2015), some criticalities have emerged. In particular, a few competent authorities requested individual plans even before reviewing and assessing the group recovery plan and how adequately this plan covered the subsidiaries under their jurisdiction. This practice was not aligned with the regulatory framework.

138. In fact, Article 5(1) of the BRRD requires Member States to *“ensure that each institution, that is not part of a group subject to consolidated supervision pursuant to Articles 111 and 112 of the CRD, draws up and maintain a recovery plan”*. For group entities, Article 7(1) of the BRRD requires Member States to *“ensure that Union parent undertakings draw up and submit group recovery plans [...] which shall identify measures that may be required to be implemented at the level of Union parent undertaking and each individual subsidiary”*. According to Article 8(2) of the BRRD, a joint decision between the consolidating supervisor and the competent authorities of subsidiaries shall be reached on *‘whether a recovery plan on an individual basis shall be drawn up for institutions that are part of the group’*. Thus, the option to have an individual recovery plan for a group entity is not excluded by the BRRD, but it should be the outcome of a joint decision or it may result as an individual decision taken by a host competent authority in the absence of a joint decision pursuant to Article 8(4) of the BRRD.

139. There were two cases in 2015 in which joint decisions on the need of individual plans were not reached in supervisory colleges, and host competent authorities actually requested supervised subsidiaries to prepare recovery plans at an individual level. Moreover, in one

¹⁵ In order to facilitate the reaching of a joint decision in the case of disagreement between the relevant competent authorities, Article 8 of the BRRD specifies that the EBA may assist the parties via a non-binding mediation.

case, there was a disagreement between the home and host supervisor on the need to request an individual recovery plan for a subsidiary, but due to a delay in the BRRD transposition in the Member State of the parent entity, a formal joint decision process was not taken in 2015.

6.2 EBA staff support and guidance

140. Over the year, the EBA staff provided its support to the recovery planning activities carried out in supervisory colleges, mainly through the following contributions.

- a) **Use of the SSH and EBA templates:** The SSH and the EBA non-binding templates for the assessment and joint decision on recovery plans have been widely used, and have helped supervisors to navigate through the different parts of the recovery plan. Although, in 2015, most of the colleges were still at an early stage of the assessment process, the ones that have started drafting joint decisions decided to do so using the EBA non-binding template as a reference.
- b) **Training on recovery planning:** Due to the fact that the BRRD entered into force in January 2015, training in the area of recovery planning was needed to establish a common framework for EU supervisors. Therefore, three training events were organised for supervisors in 2015 on the topic, while one additional training event was organised for the banking industry representatives.
- c) **Process and timeline of assessment of recovery plans:** In the first half of 2015, consolidating supervisors were preparing timelines and setting procedures for assessing group recovery plans within supervisory colleges. Therefore, a number of discussions with the EBA staff focused on the (two- and four-month) timeframes envisaged by the BRRD for assessing recovery plans and the authorities that shall be involved in the assessment process.
- d) **Assessment of the recovery plan:** The consolidating supervisors provided draft assessments of group recovery plans and subsequently incorporated additional observations made by host authorities into the final version of the assessment. The EBA staff also contributed to the assessment by providing comments (college meetings dedicated to group recovery plan assessment and discussions were usually set up).
- e) **Ad-hoc support:** The EBA guidance was requested by competent authorities several times on a number of issues, covering, for instance: (i) requests for individual recovery plans; (ii) proposed timelines and procedures for recovery plan assessment and joint decision processes (such as the timeline for transmitting the recovery plan to the host authorities); and (iii) calibration of triggers within the framework of the recovery plan indicator.
- f) **Comparative reports on recovery planning:** During supervisory college meetings, the discussion on recovery planning was often facilitated by the EBA staff presenting the outcomes of two thematic comparative reports on recovery plans across the EU. The first

report was on CBLs and CFs,¹⁶ and the second was on the approach towards recovery plan scenarios; both of these were published during the course of 2015.¹⁷

¹⁶ The comparative report on the approach to determining CFs and CBLs has also informed the 'technical advice on the definition of CFs and CBLs of the BRRD'. Both reports can be found here: <http://www.eba.europa.eu/-/the-eba-advises-on-resolution-procedures-for-eu-banks>.

¹⁷ See: <http://www.eba.europa.eu/documents/10180/950548/Report+on+benchmarking+scenarios+in+recovery+plans.pdf>.

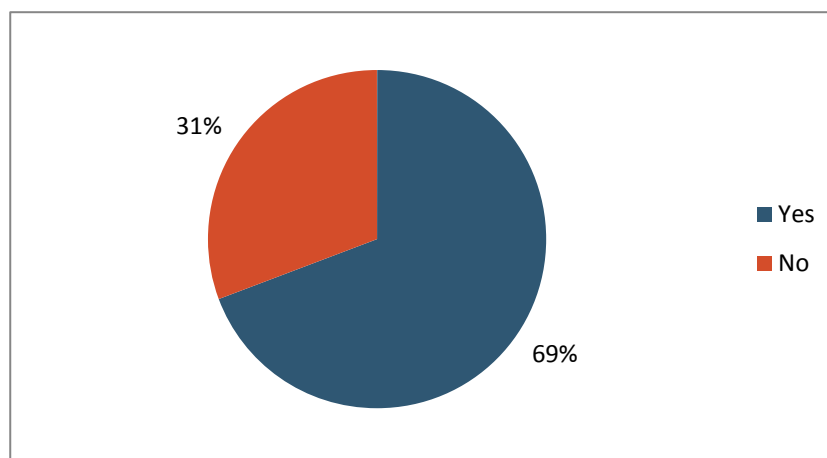
7. Colleges monitored on a thematic basis and other colleges

7.1 Thematic colleges

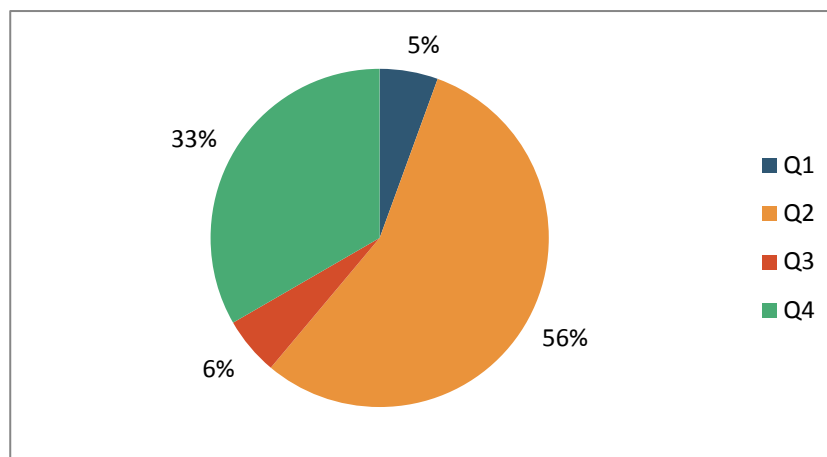
141. In 2015, the EBA staff followed 13 thematic colleges. In four of these colleges, there are no EEA authorities (EU group entities are either under the direct SSM supervision (three cases) or are located only in the home Member State (one case)) participating in the college, and the college is constituted by the consolidating supervisor, the EBA, and third-country supervisory authorities. These colleges were not subject to EU legislation requirements for reaching joint decisions on capital and liquidity or joint decisions on the assessment of group recovery plans.

142. 69% of the colleges monitored on a thematic basis provided a college SEP to the EBA in 2015.

Figure 22 – College SEP



143. All colleges following a thematic basis organised at least one college meeting in the course of 2015, with the majority taking place in Q2. This is an improvement compared to 2014, when 19% of colleges did not organise a meeting throughout the year.

Figure 23 – Distribution of physical college meetings by quarter in 2015

144. Three thematic colleges reached a joint decision in 2015, up from one in 2014. The level of completeness of the capital and liquidity joint decision processes was at an advanced stage in another two colleges at the end of December, with the joint decisions having been agreed in principle. As already mentioned, four of these colleges didn't have the requirement to reach joint decisions on capital and liquidity.

145. Within the 13 thematic supervisory colleges, a total of seven group recovery plans were submitted by banking groups for supervisory review. The formal joint decision process, according to the BRRD provisions, has been initiated in all but one college: in the latter case, this was due to the absence of other EU competent authorities than the consolidating supervisor, so no joint decision was required. Similarly to closely monitored colleges, since the majority of the recovery plans were submitted in the second half of the year, by the end of 2015 many joint decision processes were still at a relatively early stage and, out of the six colleges in which the joint decision process had been initiated, the joint decision document was circulated only in two cases, of which only one was already signed.

7.1.1 EBA staff support and guidance

146. Included in the thematic colleges are some colleges for cross-border banking groups that are currently under restructuring. For these banking groups, the EBA adopted an individualised approach to following up on the restructuring process. Where needed, the EBA provided expert advice on technical and legal issues related to the restructuring, contingency and resolution planning, especially in cases where the BRRD was not yet implemented. The EBA also monitored the home-host cooperation within the college framework, and provided assistance where needed to facilitate the cross-border cooperation and coordination between the relevant (SSM and non-SSM) supervisors.

7.2 Other colleges

147. For EEA colleges that are not monitored individually, or that are monitored on a thematic basis, a ‘group-based’ approach was introduced in 2013. This means that the EBA does not monitor the activities of these colleges individually, but rather approaches them as a group when disseminating information or obtaining updates. The same approach is applied to colleges established for banking groups active in the EEA with a third-country parent.

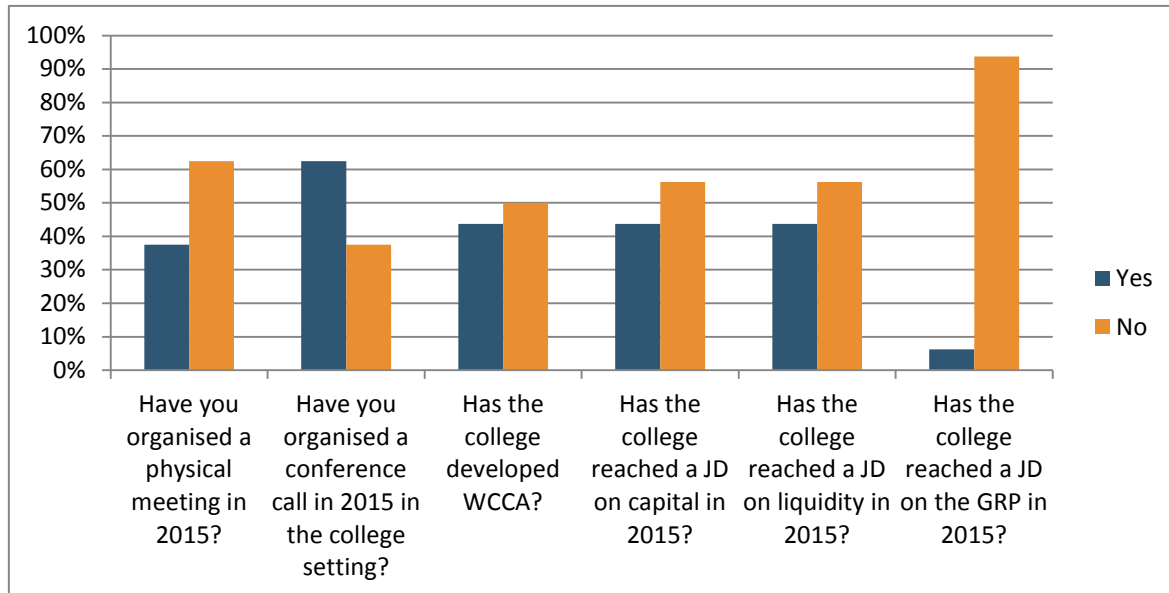
148. The EBA observed an increase in the activities of the other colleges last year. 38% organised at least one physical meeting—up from 31% in 2014—while 63% organised at least one conference call—up from 54% in 2014. Overall, three quarters of the other colleges engaged in either a physical meeting or conference call in 2015.

149. Almost half of all other colleges developed WCCA.

150. 44% of the other colleges reached a joint decision on capital in 2015—a reduction from 63% in 2014. However, all but one college that reached a joint decision on capital also reached a joint decision on liquidity—a clear departure from the disparity in 2014, when 23% more colleges reached a joint decision on capital than a joint decision on liquidity.

151. Two other colleges reached a joint decision on the group recovery plan in 2015.

Figure 24 – Activities of other colleges in 2015

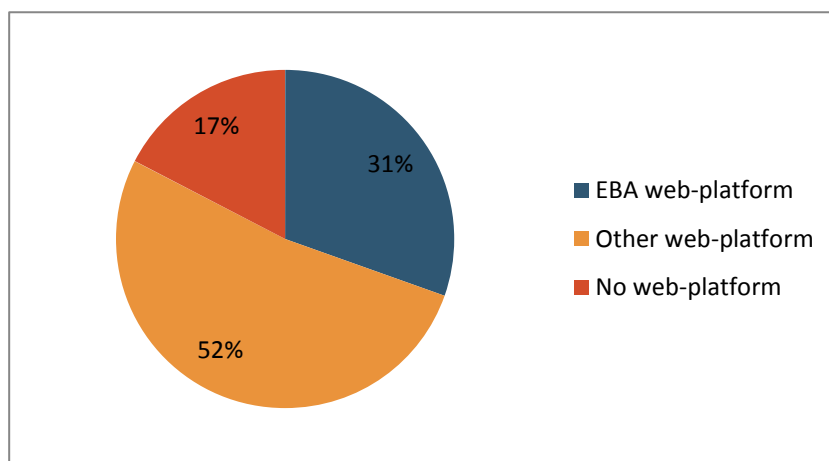


8. EBA tools facilitating colleges' functioning

8.1 EBA IT collaboration tool

152. For most of the closely monitored colleges, competent authorities are using a secure IT platform as a means of communicating within the college.

Figure 25 – Use of a secure we-platform



153. There has been an increase in the use of the EBA IT tool since 2014, with two new closely monitored colleges signing up in 2015.

154. The EBA staff observed that, while for some colleges all information is passed through the secure IT platform, for a few colleges it is rarely or never used, and information is sent via (secure) mail. The EBA staff considers this practice unsafe and urges supervisors to use either the EBA IT tool or any other secure platform to share confidential information.

155. The EBA IT collaboration platform is available to all competent authorities as a secure IT platform that can be used for the exchange of confidential information within the college context.

8.2 Quarterly Colleges Newsletter

156. The EBA continues to issue the quarterly Colleges Newsletter, which was launched by the EBA staff in 2014 with the aim:

- a) to provide home and host supervisors with regular and timely updates on regulatory developments and their influence on college activities;
- b) to keep supervisors informed of upcoming actions for the EBA Action Plan; and

c) to provide a summary of risk analysis developments relevant to colleges.

157. The EBA Colleges Newsletter is distributed not only to closely monitored colleges, but also to the other colleges and the colleges followed on a thematic basis. We received positive feedback from supervisors on this additional communication tool, highlighting its value in supervisors' day-to-day work with colleges. All issues of the Colleges Newsletter are accessible via the EBA's Extranet.

9. Concluding remarks and next steps

158. The competent authorities and the EBA have put lots of effort and resources into the activities of supervisory colleges established for cross-border banking groups and, overall, have made material progress in performing their tasks. Supervisory colleges have now completed their first full cycle of college activities in the new institutional and regulatory setting, the impact of which has been summarised in this report. While continuous improvement has been observed in the organisation of the regular colleges' work and performing joint risk assessments, challenges remain in the process and consistency of the outcomes of the joint decisions on capital and liquidity. In the field of recovery planning for cross-border banking groups, there is a need for attention to be paid to the overall process, ensuring that the BRRD concept of a group recovery plan is well understood and applied.

159. Thus, the EBA has a continuous role to play in improving the functioning of the internal market by ensuring an effective and consistent level of prudential regulation and supervision, which supervisory colleges are integral to. As noted, there have been a number of challenges encountered in cooperation and fulfilment of college tasks; however, the EBA will continue to work closely with the competent authorities, guiding them with tools such as the Colleges Action Plan, individual college feedback, and targeted training.

160. In this context, and based on the experiences in 2015, the EBA has established the Colleges Action Plan for 2016, which is presented in Annex II of this report.

Annex I – Criteria indicated by supervisors in the mapping template for determining entities' significance for the group or local markets

A. Significance for the local market

- a) Contribution to financing the real economy;
- b) Contribution to financial intermediation;
- c) Presence on inter-banking market and the quantification of the contagion effect by the inclusion of feedback effects generated by the real sector;
- d) Systemic importance within the payments system;
- e) Presence on the government securities market;
- f) Vulnerability to the contagion effect with regard to the relationship between parent banks and local entities from the common lender perspective;
- g) Market share in terms of deposits or loans granted;
- h) Number of customers and employees;
- i) Impact on local market (without information on how such impact is measured); and
- j) Complexity and interconnectedness of the institution within the financial system.

B. Importance for the group

- a) Entity's total assets (and/or off-balance-sheet items) as a percentage of the group's assets (and/or off-balance-sheet items);
- b) Entity's risk-weighted assets (RWAs) above a specific threshold of the group's total RWAs;
- c) Type and scale of activity undertaken (without providing information on the nature of activities that may affect the assessment of significance for the group);
- d) Entity is noted as source of funding;
- e) Subsidiary of strategic importance for the group; and
- f) Profit & Loss and balance sheet contribution to the group.

Annex II – 2016 EBA Colleges Action Plan

1. Introduction

1. The EBA is tasked with contributing to, promoting and monitoring the efficient, effective and consistent functioning of supervisory colleges across the EU. Supervisory colleges play an important role in the effective supervision of cross-border groups and have been a vital forum for the coordination of supervisory activities, the sharing of information, and the reaching of joint decisions.
 2. On an annual basis, the EBA establishes an action plan for supervisory colleges that provides the authorities responsible for supervising cross-border institutions with a set of objectives and deliverables in line with the Level 1 and Level 2 provisions. The annual EBA Colleges Action Plan also sets the approach to be followed and the tasks to be undertaken by the EBA staff in supporting and monitoring colleges within its statutory mandate.
 3. During the development of the 2016 Colleges Action Plan, the EBA has considered the findings from the monitoring of college activities in 2015 and the developments in colleges' settings and functions driven by changes in the institutional and regulatory framework, which were developed and concluded in the previous year. In particular:
 - a) The creation of the SSM, and the shift of responsibilities for the supervision of significant institutions established in the euro area from NCAs to the ECB, had a material impact on the composition and approaches followed by EU colleges. In 2015, colleges continued to play an important role in the oversight of cross-border groups, ensuring a sufficient level of interaction between the EEA competent authorities and appropriate cooperation with third-country supervisory authorities.
 - b) The BRRD, which was entered into force on 1 January 2015, introduced additional tasks for the competent authorities of cross-border institutions. Under the framework of supervisory colleges, a joint decision on the assessment of group recovery plans is required. Cooperation between supervisory authorities and resolution authorities is expected to be organised in a structured and effective manner, under the framework of newly established resolution colleges—a development that is expected to evolve further and bring additional complexity to the functioning of supervisory colleges in 2016.
 - c) The RTS and ITS on the functioning of supervisory colleges, together with the Commission Implementing Regulation (EU) No 710/2014, provided the competent authorities with a complete legal framework for the functioning of colleges, introducing further tasks or changes in the performance of well-established tasks.
-

4. Having as a basis on those developments, the 2016 EBA Colleges Action Plan outlines:

- a) the key tasks for supervisory colleges;
- b) the key topics for supervisory attention in 2016; and
- c) the EBA's approach to monitoring colleges.

2. Key tasks for supervisory colleges

5. Supervisory colleges will continue to improve their general cooperation and convergence in 2016, ensuring the performance of all tasks required by the relevant legal framework. Supervisors are expected to organise their efforts and resources to maintain and manage the operational aspects of college work. Further, supervisors are required to perform a number of joint activities that stem from legal requirements and that have already been included in colleges' annual tasks for some years now, aiming to enhance the supervision of the cross-border groups. In this context, the main tasks arising for supervisory colleges in 2016 include:

- a) updating the mapping of cross-border group entities with all relevant information envisaged in the template of Annex I of the RTS on supervisory colleges;
- b) considering expanding the list of authorities with observership status in light of the outcome of the EBA's work on equivalence assessment, following the process envisaged in the Level 1 and Level 2 provisions;
- c) maintaining and developing further the WCCA (e.g. elaborating on details of collaboration and interaction with resolution colleges, and defining risk indicators to be exchanged in the college framework);
- d) organising physical meetings and maintaining ongoing interaction in other forms (e.g. conference calls, e-mails, and consultations in written format);
- e) adopting an annual college SEP, noting joint and individual supervisory activities, resources committed from respective college members, and the timing and duration of these activities;
- f) organising and establishing timelines for joint decisions envisaged by the CRD and the BRRD;
- g) developing and finalising group risk assessments and group liquidity risk assessments;
- h) reaching joint decisions on capital and liquidity;

- i) reaching joint decisions on the assessment of group recovery plans, measures to address impediments to these plans, and the need for individual plans covering entities of the group; and
- j) organising and concluding joint decisions as required by the regulatory framework (e.g. approving use of internal models, determining liquidity subgroup, and other CRD/BRRD-related joint decisions).

3. Key topics for supervisory attention in 2016

6. The EBA's work on risks and vulnerabilities in the European banking system aims to identify the main forward-looking view on risks that are of concern to the regulatory and supervisory community. Based on the outcome of this work, and on the outcome of other relevant policy work and supervisory initiatives, competent authorities supervising cross-border banking groups under the colleges framework should pay particular attention to the following key topics in 2016.

3.1 Key topics linked to risks faced by EU banks

- a) **Non-performing loans and balance sheet cleaning:** Asset quality remains a concern, and supervisory authorities are requested to continue to focus on ongoing balance sheet cleaning and Non-Performing Loans (NPLs) reduction for legacy portfolios, particularly with regard to the differences in coverage of NPLs in different jurisdictions. Also, the quality and composition of growing new loan portfolios should be an area for attention in view of the banks' risk appetite and potential credit standard loosening.
- b) **Business model sustainability in challenging regulatory and macro-economic environment:** Supervisory authorities are requested to pay particular attention to the sustainability of banks' business models. Banks are faced with a challenging regulatory and macro-economic environment with protracted low interest rates, potential asset bubbles, and increased competition from new non-bank market participants challenging the sustainability of their business models.
- c) **Operational risk – conduct risk and IT risk**
 - **Conduct risk:** Costs related to conduct and litigation risks are still affecting the profitability of European banks, and more charges are expected in 2016 from remaining PPI claims, Department of Justice cases on mortgages, and civil litigations with regard to Foreign Exchange (FX) and Libor. It is therefore

important that conduct risk remains incorporated in the 2016 supervisory activities.

- **IT risk:** In connection to IT risk, supervisory authorities are requested to pay particular attention to the risks related to cybercrime and the effects of technological innovation on the banking sector, particularly the partnerships of banks with financial technology (FinTech) companies.

3.2 Key topics linked to specific policy products

- d) **SREP guidelines implementation:** SREP guidelines come into force in 2016 and supervisory authorities should share information on the implementation relevant for the purpose of the preparation of joint risk assessments and reaching joint decisions, particularly on aspects where flexibility or more detailed implementation is allowed (e.g. monitored indicators, scoring, and the composition of capital for TSCR).
- e) **IRB models – review and cross-border cooperation:** The review of IRB models is an important supervisory initiative that is part of the ongoing work on revising the risk-based capital framework at international level. The aim is to reduce the excessive variability in RWAs under internal models. Given that banks will face substantial implementation changes in the area of IRB models, it will be important to consider how to plan these changes so that resources both at the bank and at the competent authorities are employed optimally. In addition, it will be important to explore whether the capital requirements of the banks are an outlier—for instance, using EBA benchmarking results. Cross-border supervisory communication and cooperation in this respect will be required in reviewing internal models and establishing agreements among relevant competent authorities on timelines for implementation of required changes proposed by institutions (including joint decisions between relevant competent authorities where required).
- f) **International Financial Reporting Standard (IFRS) 9 impact:** The introduction of IFRS 9 requirements applicable for the accounting periods beginning on or after 1 January 2018 is of high relevance for the banking industry. The main impact relates to the IFRS requirements on expected credit losses, which should lead to an earlier recognition of credit losses, affecting more financial assets and at a higher amount.
- g) **Remuneration – bonus cap:** Assessment of institutions' compliance with the limitation of the ratio between variable and fixed remuneration components (bonus cap) should also be included in the 2016 supervisory activities as a follow-up to the EBA Opinion regarding the principles on remuneration policies of credit institutions and investment firms, and the use of allowances and its follow-up report published in 2015.

3.3 Key topics linked to supervisory initiatives

h) **EU-wide stress test – home-host cooperation and communication to the market:** The EU-wide stress test is being formally launched in the first quarter of 2016 and will assess EU banks' ability to meet relevant supervisory capital ratios during an adverse economic shock. The results will inform the 2016 SREP. For cross-border banking groups, it is important for supervisory authorities to organise effective home-host communication and coordination during the 2016 EU-wide stress test, including with regard to:

- the sharing of the final results prior to their disclosure to the market; and
- the use of the stress test results in the SREP exercise.

4. The EBA's approach to college monitoring in 2016

4.1 Continuation of existing tasks

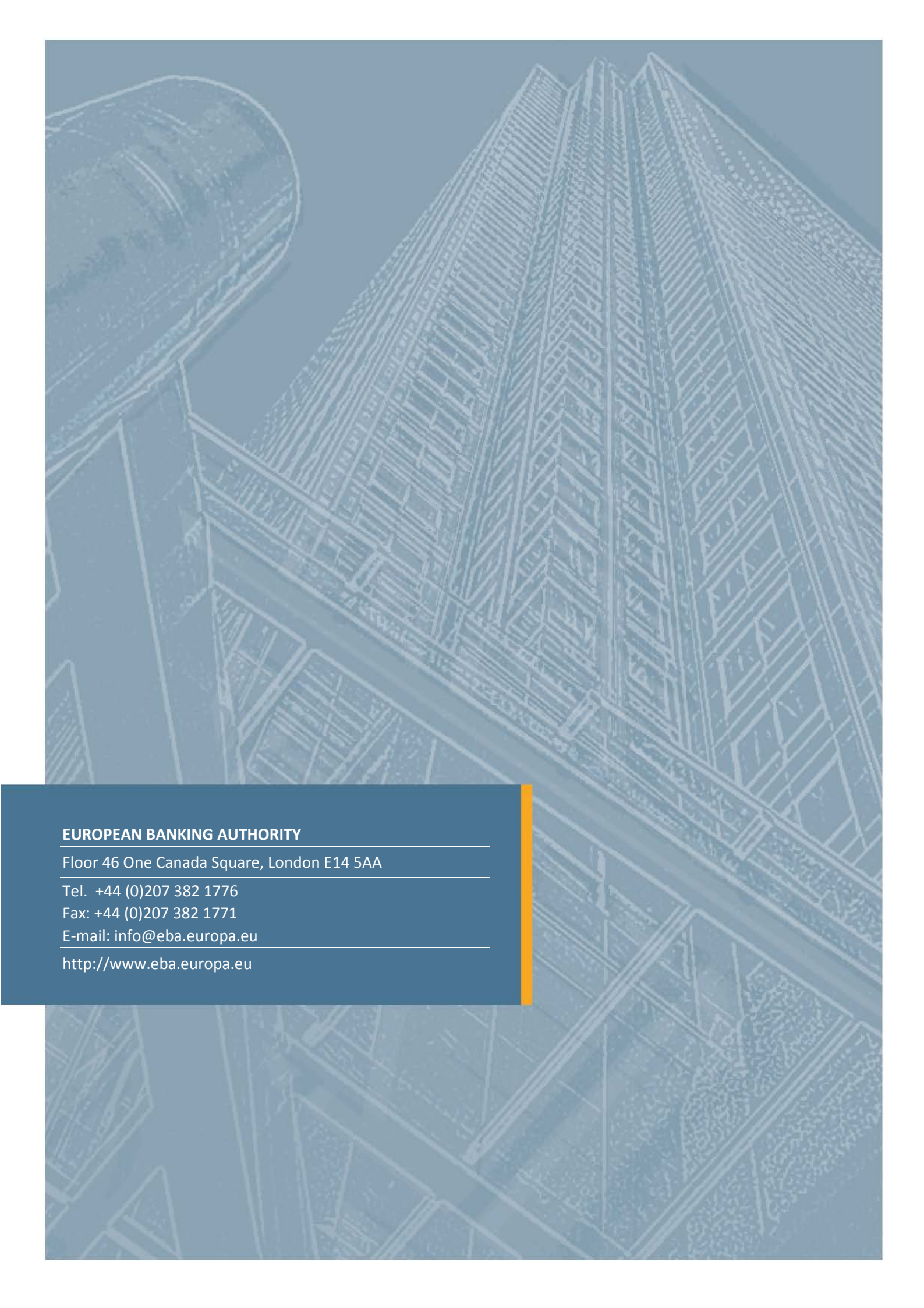
7. In 2016, the EBA staff will continue to support and monitor college functioning and will assist colleges in applying the EBA technical standards and guidelines, and other relevant parts of the Single Rulebook. To support competent authorities, the EBA will also provide training on colleges' functioning and supervisory tasks, including SREP guidelines and the assessment of recovery plans. An initiative that will be continued in 2016, as it was well received by competent authorities, is the organisation of tailor-made trainings and events to respond to the specific demands of the competent authorities.
8. The EBA staff intends to continue issuing its Colleges Newsletter on a regular basis to provide home and host supervisors with updates on EBA policy work related to supervisory cooperation, as well as relevant risk analysis and planned workshops or training. While the newsletter is distributed to a wide audience of home and host supervisors, it is particularly useful for the consolidating supervisory authorities of the colleges, which are not in close individual contact with the EBA staff.
9. In 2015, the EBA issued its first recommendation on the equivalence of the confidentiality regimes, with 29 authorities from 13 non-EU countries being assessed as equivalent. The recommendation should assist competent authorities in arriving at a common conclusion when identifying third-country authorities in view of their participation in EU supervisory colleges, and use it as a common reference in the WCCA. In 2016, the EBA will assess the confidentiality regimes of a further number of third-country authorities that are important for EU supervisory banking groups in order to update the recommendation.

4.2 New focus or approach to existing tasks

10. The EBA staff opted to adopt a more individualised approach to college monitoring as of 2016. With the legal framework for the functioning of supervisory colleges completed, colleges now need to follow the supervisory cycle and the requirements of the Level 1 and level 2 texts. Therefore, the EBA staff decided to monitor the college deliverables on a bilateral basis with the relevant competent authorities. In that respect, no common deadlines are included in this Colleges Action Plan as in the previous years. Instead, the EBA staff will monitor colleges' deliverables on a college-per-college basis in view of the supervisory cycle, the Level 1 and Level 2 requirements, and the deadlines and targets put forward by the consolidating supervisors for their respective colleges.
11. The EBA staff intends to enhance the existing tools offered to colleges, including those related to our risk assessment work, and offer more tailor-made products to individual colleges in 2016.

4.3 New initiatives and scope

12. Based on the experience of the colleges' monitoring in 2015, the EBA staff identified the need to address a number of issues with individual competent authorities in a proactive way at the horizontal level. To address this, bilateral visits and engagement will be organised in 2016 with competent authorities for a number of horizontal topics. In view of the common SREP guidelines that entered into force at the start of the year, a particular focus of attention will be the SREP methodologies and how they are applied in practice, contributing to the work of colleges. The objective is to promote consistent supervisory practices and a common supervisory culture within the EU. The EBA staff will also engage with line supervisors responsible for organising and contributing to college-related tasks, both in consolidating and host supervisor roles. This will enable the EBA staff to better understand the individual approach of different competent authorities and identify potential needs for additional EBA support.
13. Up until 2015, the EBA's monitoring of supervisory colleges was focused around colleges for cross-border banking groups. As of 2016, the scope of colleges will be expanded to include colleges established for investment firms with cross-border presence, since they are also subject to CRD and BRRD requirements.
14. In 2016, the EBA staff will introduce self-assessments for selected colleges and activities. This should enable us to achieve a broader coverage of colleges in our assessment, as well as providing the opportunity for both home and host supervisors to provide us with their feedback on college functioning.



EUROPEAN BANKING AUTHORITY

Floor 46 One Canada Square, London E14 5AA

Tel. +44 (0)207 382 1776

Fax: +44 (0)207 382 1771

E-mail: info@eba.europa.eu

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