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Abbreviations

AMA	advanced measurement approaches	FSB	Financial Stability Board
AQR	asset quality review	FX	foreign currency
BCBS	Basel Committee on Banking Supervision	G-SIFIs	global systematically important financial institutions
BRRD	bank recovery and resolution directive	HQLAs	high-quality liquid assets
BSG	Banking Stakeholder Group	ICAAP	internal capital adequacy assessment process
BTS	binding technical standards	IMF	International Monetary Fund
CET1	common equity tier 1	IMM	internal model method
CFDs	contracts for difference	IOSCO	International Organisation of Securities Commissions
CMGs	crisis management groups	IRB	internal ratings-based
COREP	common reporting	IRC	incremental risk charge
CRD IV	capital requirements directive IV	ITS	implementing technical standards
CRR	capital requirements regulation	KRIs	key risk indicators
CT1	core tier 1	LCR	liquidity coverage ratio
EBA	European Banking Authority	LDP	low-default portfolio
EC	European Commission	LGD	loss-given default
ECAIs	external credit assessment institutions	MCD	mortgage credit directive
ECB	European Central Bank	NCA	national competent authority
EDPS	European Data Protection Supervisor	NSA	national supervisory authority
EEA	European Economic Area	OLAF	European Anti-Fraud Office
EFC	Economic and Financial Committee	OTC	over-the-counter
EIOPA	European Insurance and Occupational Pensions Authority	PD	probability of default
ELBE	expected loss best estimate	PSD	payment services directive
EMIR	European market infrastructure regulation	QIS	quantitative impact study
ESAs	European supervisory authorities	RCAP	regulatory consistency assessment programme
ESCB	European System of Central Banks	RMBS	residential mortgage-backed security
ESFS	European System of Financial Supervision	RRD	recovery and resolution directive
ESMA	European Securities and Markets Authority	RTS	regulatory technical standards
ESRB	European Systemic Risk Board	RWAs	risk-weighted assets
ETFs	exchange-traded funds	SMEs	small and medium-sized enterprises
EU	European Union	SREP	supervisory review and evaluation process
FICOD	financial conglomerates directive	SSH	single supervisory handbook
Finrep	financial reporting framework	SSM	Single Supervisory Mechanism
		WOLF	weekly overview of liquidity and funding

Andrea Enria



Foreword by the chairperson

At the end of 2013 the European Banking Authority (EBA) celebrated 3 years of activity and, as foreseen in the founding regulations of the EBA and the other components of the European System of Financial Supervision (ESFS), a review should be conducted to assess both the structure and the performance of the European supervisory authorities (ESAs) and the European Systemic Risk Board (ESRB). The European Court of Auditors is also finalising an audit on the performance of the EBA during the crisis.

These assessments come at an important juncture in the life of the EBA. The start-up phase is coming to a close. In the tumultuous first 3 years of activity we focused mainly on two intertwined objectives: (i) contributing to the repair of the EU banking system by putting pressure on the banks to clean their balance sheets and significantly strengthen their capital position; and (ii) developing truly uniform regulatory standards so that the implementation of the G20 reforms in the EU would lead to a genuine level playing field, supporting the integration of the single market.

In pursuing both these tasks, we put a lot of emphasis on the transparency and comparability of the information provided by the banks. A lot of effort, less visible to external observers, has also gone into re-establishing effective channels for supervisory cooperation, especially in colleges of supervisors; we intervened with all the instruments in our toolbox to prevent and repair breakdowns in the cooperation between home and host authorities. Transparency and comparability are essential prerequisites to establishing effective market discipline and protecting the integrity of the EU single market.

Throughout 2013 we also increased our attention to the protection of consumers of banking services, with a number of initiatives on both traditional and innovative products and distribution practices.

But let me take a deeper look at the main achievements of the EBA throughout 2013. A great deal of time and resources was devoted to develop the standards needed for the implementation of the G20 reforms in the EU, especially Basel 3 through the fourth capital requirements directive (CRD IV) and the capital requirements regulation (CRR). For the first time, many prudential standards for banks are being adopted through a regulation and, therefore, will become directly applicable and binding across all EU Member States. The EBA submitted 57 technical standards to the European Commission for endorsement, covering banks' own funds, supervisory reporting, credit risk, market risk, liquidity and remuneration. In addition to this, the EBA issued two guidelines, four recommendations to national competent authorities (NCAs) and six opinions to the European Parliament, the Council of the European Union and the European Commission.

All this regulatory activity has seen the involvement of our Banking Stakeholder Group (BSG), as well as of other external stakeholders through 56 public consultations and the organisation of 34 public hearings. While we did our best to respect our commitments to long and in-depth consultation processes, this has, at times, proven to be a very daunting task due to the very tight deadlines set in primary legislation. In some other cases the deadlines were clearly not workable at all, and we had to agree with the Commission on a delayed submission of our draft standards. Going forward, I believe that the EBA's views should be more actively sought in the definition of mandates and deadlines. A formal or informal engagement in the preparation of primary legislation is warranted. But I want to be crystal clear: the EBA is not asking to become a party in the negotiations on primary legislation, but we do want to have the opportunity to provide timely advice on what is feasible and what is not, and on what is technically desirable and what is not. This is a task that any national regulator plays vis-à-vis national government and parliaments and one that will be essential for the work of the EBA too. Also, while I noticed that primary legislation has maintained or introduced national discretions in a number of areas, I believe the EBA can provide the support that is needed to analyse the impact of such differences on the functioning of the single market, and play an important role as guardian of the single rulebook.

In 2013, EU banks went a long way towards strengthening their capital levels and repairing their balance sheets. The EBA maintained a high level of pressure to ensure that the adjustment took place. Also, as a result of our recapitalisation exercise, completed in 2012, the average common equity tier 1 (CET1) ratio of major EU banks is now at 11.7 %, higher than the level achieved by the largest American banks and well above the starting points when the EBA started operating.

However, discrepancies remained between regulatory yardsticks on the one hand and market perception on the other. The turning point in markets' confidence has not been reached yet. Hence the need to focus on banks' asset quality in order to dispel remaining concerns and reassure potential investors on the robustness of EU banks. Our recommendation issued in October 2013 went exactly in this direction, as it called on all competent authorities to undertake an asset quality review (AQR) using, to the extent possible, our common definitions of non-performing exposures and debt forbearance. AQRs will be a real game changer in the new round of EU-wide stress tests that we will be coordinating in 2014. Common yardsticks, common EU processes and methodologies and some degree of independent review should help overcome the remaining uncertainties. This process is key as only banks that have a strong capital position and have completed the cleaning of their balance sheet are in a position to support normal lending to corporates, especially small and medium-sized enterprises (SMEs), and households.

Transparency and comparability of bank data play a major role in this respect: in December 2013 we disclosed granular and updated information on banks' composition of capital, risk-weighted assets (RWAs), and sovereign exposures — approximately 7 000 data points for each bank in our sample. We are committed to making detailed and comparable disclosure a regular feature of the new EU environment. Going forward, we are also committed to developing policies to follow up on our analytical work and make sure that RWAs calculated according to banks' internal models are reliable and comparable across the single market.

We are also well aware that consumer protection remains a vital aspect for restoring confidence in the banking sector. The EBA's focus on consumer protection has signifi-

cantly increased in 2013, and will further intensify in 2014. Confidence in the EU banking sector cannot be reached if the episodes of misconduct that have characterised recent years, from manipulation of benchmark rates to mis-selling of financial products, continue to take place.

To conclude, I would like to say that I am glad to see that the comments provided by many stakeholders in the framework of the review of the ESFS that I was mentioning earlier acknowledge the importance of the work accomplished by the EBA. Indeed, the praise should be addressed first and foremost to the EBA staff, as the progress made would not have been possible without their effort and commitment. They worked hard in a challenging environment, characterised by very tight deadlines and resource constraints. I also have to recognise that we wouldn't have been able to achieve our objectives without the help of the national supervisory authorities (NSAs), which have contributed to the technical work and often have positively responded to our calls for support, dedicating experienced staff to work with us. Last but not least, my thanks have to go to the Board of Supervisors, the main decision-making body of the EBA, the Management Board, and their individual members. The governance of the EBA is not simple, but this has never prevented us from delivering very complex pieces of work on time, without compromising on quality in order to achieve consensus.

In 2014 I see a new phase for the EBA's work. The banking union is a major change in the institutional environment, which also calls for a strategic refocusing of our work. The centralisation of prudential supervisory responsibilities at the European Central Bank (ECB) will provide further impetus to the need to develop a single rulebook; the Single Supervisory Mechanism (SSM) cannot perform its tasks with major differences in the rules to be applied within its jurisdiction. At the same time, differences between the rules in Member States inside and outside the SSM would risk opening a fracture within the single market. Similarly, as the majority of cross-border groups have establishments within and outside the SSM, we will have to make sure that home-host cooperation develops smoothly in the new institutional environment, also through an increasing reliance on mediation. Cooperation with the ECB has started in earnest, and the AQR and stress test this year will be an important common endeavour. As prudential supervision takes up a European dimension, consumer protection should also be stepped up, possibly with stronger legal underpinning for our work. I look forward to these challenges, and to working closely with Danièle Nouy and her colleagues in Frankfurt.



Interview with the executive director

Adam Farkas

1. The EBA has entered its 3rd year of activity, at the end of which the European Commission will make an assessment of its performance within the wider review of the EU supervisory framework. Do you think the EBA has lived up to the expectations placed on it? What are the areas where major progress has been made and those where you still see room for improvement?

The first 3 years of the EBA's activity, especially on the regulatory side, have proved very challenging for us, in terms of workload and tight deadlines. But they have also been very rewarding since our key role in building up the single rulebook for the EU banking sector has been widely acknowledged. Our output, from both a quantitative and qualitative point of view, is rather impressive: throughout 2013, we launched 56 public consultations, mainly related to the draft technical standards developed under the new EU legislative framework. We then submitted 57 final draft technical standards to the European Commission for endorsement. These covered a wide range of topics, from banks' own funds to credit and market risk, as well as remuneration, liquidity, bank recovery and resolution. These standards, whose ultimate aim is to ensure a level playing field across the EU banking sector, will have a major impact, as they will be binding and directly applicable. In this respect, another major contribution has been the development of a common reporting framework, which will increase the comparability of financial information reported to different supervisors, as well as the cost-effectiveness of supervision across the EU, thus reducing reporting burden on cross-border credit institutions and removing potential obstacles to financial market integration.

We have also been very active on the supervisory front, with regular risk analyses such as the assessment and monitoring of key risks in the EU banking sector, including an important analysis on the consistency of RWAs, which we have been conducting in parallel with Basel. Also, our work on uniform reporting requirements, as I already mentioned, will ensure greater convergence of supervisory practices across Member States, as it will allow supervisors to identify and assess risks consistently across the EU, as well as to compare EU banks in an effective way. Last but not least, I would like to highlight all the preparatory work the EBA has done in view of the 2014 EU-wide stress test. This exercise will involve close cooperation between the EBA, the competent authorities and the ECB. In particular, the EBA will play a key role in developing a common methodology, ensuring effective cooperation between home and host supervisors and providing pan-EU benchmarks, and will act as a data hub for the final dissemination of the common exercise.

Furthermore, our efforts under the new consumer protection mandates have also started to bear some fruit. In 2013 the EBA delivered its first important outputs, which are expected to have a positive impact on EU consumers.



I am delighted to note that the European Commission thinks of the EBA as a cornerstone of the comprehensive reform that is being carried out in the EU banking sector. And the European Parliament has on various occasions praised the work done by the EBA while acknowledging the need for its role to be preserved and further strengthened. I must admit that some of the obstacles that have come our way are indeed related to our complicated governance structure and to constraints in terms of powers. I am confident that the European Financial Stability Facility review will address some of these in order to ensure the more effective and smoother functioning of this authority, in particular if we are to continue to serve as a bridge between euro area and non-euro area members in our capacity as guardian of coherence in banking regulation and supervisory consistency for the EU as a whole. In this respect, I would like to recall the key role the EBA has in promoting and monitoring the efficient, effective and consistent functioning of colleges of supervisors, which are crucial forums for the supervision of EEA cross-border banking groups.

2. You explained that the EBA has been particularly active on the regulatory front, especially following the finalisation of the new EU regulatory framework. So what are the biggest operational challenges you have had to face so far to be able to cope with the increasing number of mandates? Do you see any constraints in terms of the available and planned resources?

As I said before, our workload both in terms of regulation and in terms of supervision has been very intense, and it has significantly increased following the new mandates stem-

ming from the new EU regulatory framework. And we will receive even more mandates once the bank recovery and resolution directive (BRRD) is approved. Unfortunately, the available and planned number of staff is not directly proportional to our increased workload, and this is our main operational challenge. The drafting of technical standards, which is indeed one of our core activities and very resource intensive, will be a challenge for the current and future establishment plans. So far, we have managed to deliver good-quality products even with the tight deadlines and the uncertainties in the regulatory landscape. This has been possible thanks to the commitment of our staff, 124 professionals from all over the EU, including experts seconded from the national authorities.

Another big challenge has been the establishment of a totally independent IT platform to support, among others, the daunting task of building a common supervisory landscape. Just to give you a rough idea of what this means in practical terms, the number of banks from which we will be collecting data will increase from 52 to 200 in 2014, and on average we will be collecting 50 times more data points per bank.

3. One of the areas where the EBA was called upon to strengthen its role was consumer protection. What progress has been achieved so far?

Consumer protection, together with our related mandate of monitoring financial innovation, is a very important area for the EBA. Our remit extends to retail banking products such as mortgages, personal loans, bank accounts, savings products, credit/debit cards and payment services.

We achieved major progress in 2013. For example, we issued a warning on virtual currencies addressed to consumers, to make them aware that, in the absence of regulation, they could incur significant risks if they decided to use virtual currencies, such as bitcoins, as a means to pay for goods and services. In the wake of our warning, a number of national authorities have already undertaken actions to raise awareness of this issue and some have published their own opinions on the subject. The question for the EBA and national regulators is now whether virtual currencies can and ought to be regulated. We expect to reach a collective answer before summer 2014. We also enhanced protection for borrowers who buy a mortgage through a credit intermediary. Borrowers who have a legitimate claim against an intermediary, for example as a result of maladministration or mis-selling, are now more likely to be compensated, because we set the minimum level of professional indemnity insurance that intermediaries are required to take out.

On the basis of the existing guidelines on complaints handling in the insurance sectors, published by the European Insurance and Occupational Pensions Authority (EIOPA), we developed our own guidelines on complaints handling in the banking sector. This was essential to ensure consistency, and as a result, if things go wrong, EU consumers will be able to rely on a single and harmonised set of complaints-handling arrangements being in place across the sectors of banking, insurance and investment, irrespective of the type of product they purchase or the geographical location of the firm or the consumer. We also started looking into developing a multilingual consumer corner on our website to facilitate access to consumer-related information and

services, and co-organised the joint consumer day of the three ESAs, which proved to be a very good forum for exchange and discussion.

4. How effective do you think your engagement with third parties, international organisations and stakeholders has been so far? And how fruitful do you think the cooperation with your sister supervisory authorities has been?

The EBA has been particularly active in participating, formally or informally, in a number of international groups to exchange practices and to ensure the consistency of regulatory work between the EU and the rest of the world, and also to contribute to the efficient implementation in the EU of the G20's conclusions and recommendations. We sit as observers at the Basel Committee table and our experts participate in a number of Basel technical working groups. We have also regularly engaged with third countries' regulatory and supervisory authorities. As for our engagement with the stakeholders, our BSGs met seven times in 2013 and have provided valuable input into all our regulatory products. Engaging with stakeholders is a priority for the EBA, and before finalising our technical standards, guidelines and opinions, we launch written consultations and organise public hearings.

As I already mentioned, the EBA had done a lot of joint work with both the European Securities and Markets Authority (ESMA) and EIOPA under the auspices of the joint committee, which has proved a key forum for sharing information and data on cross-sectoral risks and vulnerabilities in the EU financial system and for conducting coordinated work in several areas, including consumer protection.

Mandate, tasks and governance

The European Banking Authority (EBA) is part of the European System of Financial Supervision (ESFS), which is helping to rebuild trust in the financial sector in the EU. The EBA promotes supervisory convergence across the EU and provides advice to EU institutions in the areas of banking, payments and e-money regulation, as well as on issues related to corporate governance, auditing and financial reporting.

Through the development of its single rulebook for banking, the single set of harmonised prudential rules that institutions throughout the EU must respect, the EBA helps guarantee financial stability and a level playing field across financial markets.

The EBA is one of three new European supervisory authorities (ESAs) created as a response to shortcomings in the supervision of increasingly interconnected international financial markets, as well as of institutions such as those affected by the financial crisis of 2007/08. The EBA is accountable to both the European Parliament and Council of the European Union. It has the power to temporarily prohibit or restrict financial activities that threaten the orderly functioning and integrity of financial markets or the stability of the financial system.

Together with EIOPA and ESMA, the EBA is charged with:

- improving the functioning of the internal financial market by means of ensuring a high, effective and consistent level of prudential regulation and supervision;
- protecting depositors and investors, as well as the integrity, efficiency and orderly functioning of financial markets;
- maintaining the stability of the financial system and strengthening international supervisory coordination.

The EBA works to improve the quality and consistency of national supervision and to strengthen oversight of cross-border groups, and acts as an independent advisory body to the Parliament, the Council and the Commission on banking issues.

One of the EBA's key tasks is to harmonise regulatory technical standards (RTS) in financial services into the single rulebook in order to create a level playing field and adequate protection of depositors, investors and consumers across the EU. All concerned parties contribute to the definition of the EBA's technical standards through participation in the EBA's BSG, which is not only consulted on proposed measures, but also on the impact studies on the effect the proposed new standards will have on the sector.

The EBA has the power to investigate the incorrect or insufficient application of Union law by an NSA, can compel that authority to take the actions necessary to become compliant and can require it to take specific courses of action in emergency situations.

The principal decision-making body of the EBA is its Board of Supervisors, which is composed of the heads of the relevant competent authorities in each EU Member State and is chaired by the chairperson of the EBA. Representatives of the Commission, the ESRB, the ECB, EIOPA and ESMA also participate as observers in the meetings of the EBA Board of Supervisors.

The EBA Management Board ensures that the authority carries out its mission and performs the tasks assigned to it. It is composed of six members elected from the EBA Board of Supervisors. The EBA chairperson is also a member and chairs the Management Board. The executive director and a representative from the European Commission attend as non-voting participants (except that the European Commission has a vote on budget matters).

Highlights in 2013

JANUARY

ESMA and the EBA take action to strengthen Euribor and benchmark rate-setting processes

The EBA consults on principles for benchmark-setting processes in the EU

The EBA recommends that major EU cross-border banking groups develop recovery plans

The EBA publishes a risk assessment report on the EU banking system (January 2013)

FEBRUARY

The EBA publishes a discussion paper on retail deposits subject to higher outflows for the purposes of liquidity reporting under the CRR

The EBA consults on the process to define highly liquid assets in the LCR

EBA interim report on the consistency of RWAs in the banking book

ESMA and the EBA warn investors about contracts for difference

MARCH

The EBA publishes its opinion on good practices for ETF risk management

The ESAs publish a joint letter to the European Commission on the possible regulatory framework for benchmark activities

The EBA consults on draft RTS for recovery plans

The EBA consults on draft RTS on conditions for assessing the materiality of extensions and changes of internal approaches for credit, market and operational risk

The EBA publishes updates to the credit institution register

The EBA publishes updates on draft ITS on supervisory reporting requirements

The EBA publishes its consumer trends report

The EBA consults on the data point model related to the draft ITS on supervisory reporting requirements for leverage ratio

The EBA consults on the data point model related to the draft ITS on supervisory reporting requirements for liquidity coverage and stable funding

The EBA publishes the results of the Basel III monitoring exercise as of 30 June 2012

The EBA consults on asset encumbrance reporting

The EBA consults on draft ITS on supervisory reporting on forbearance and non-performing exposures

APRIL

The Joint Committee of the European Supervisory Authorities (ESAs) calls for action on cross-sectoral risks

MAY

The EBA recommends that supervisors conduct AQRs and adjust the next EU-wide stress test timeline

The EBA consults on draft RTS on the determination of the overall exposure to a client or a group of connected clients in respect of transactions with underlying assets

The EBA consults on draft ITS on institution-specific prudential requirements

The EBA consults on draft RTS on the assessment of recovery plans

The EBA consults on draft RTS specifying the range of scenarios to be used in recovery plans

The EBA consults on draft RTS for the definition of material risk takers for remuneration purposes

The EBA consults on draft RTS and ITS on passport notifications

The EBA consults on draft RTS and ITS on securitisation retention rules

The EBA consults on draft RTS on the definition of 'market' and on option risks under the standardised approach for market risk

The EBA consults on draft guidelines on capital measures for foreign currency lending

The EBA consults on draft RTS and ITS on liquidity

The EBA consults on RTS for own funds (part III)

JUNE

ESMA and the EBA publish final principles on benchmarks

The EBA launches its newly redesigned website

The EBA publishes good practices for responsible mortgage lending and the treatment of borrowers in payment difficulties

The EBA publishes its 2012 annual report

The EBA consults on draft ITS on closely correlated currencies and on appropriately diversified indices

The EBA consults on draft guidelines on technical aspects of the management of interest-rate risk arising from non-trading activities (IRRBB)

The Joint Committee of the ESAs holds its first Consumer Protection Day

JULY

The EBA appoints its new alternate chairperson and Management Board members

The EBA launches a new single rulebook Q & A tool

The EBA consults on draft RTS in relation to credit valuation adjustment risk

The EBA consults on draft RTS and ITS on information exchange between home and host competent authorities

The EBA consults on draft ITS on supervisory disclosure

The EBA consults on draft RTS on prudent valuation

The EBA consults on draft ITS on the hypothetical capital of a central counterparty

The EBA presents data on high earners in EU banks

The EBA consults on draft RTS on own-funds requirements for investment firms

The EBA publishes its report on risks and vulnerabilities of the EU banking sector (June 2013)

The EBA consults on draft RTS on close correspondence for own-issued covered bonds

The EBA publishes a recommendation on the preservation of capital

The EBA launches a QIS exercise on prudent valuation

The EBA publishes the first final draft RTS on own funds and credit risk adjustment

The EBA publishes final draft ITS on supervisory reporting requirements

The ESAs publish draft RTS on the consistent application of calculation methods under the FICOD

The EBA consults on draft RTS related to the specific risk of debt instruments in the trading book

AUGUST

The EBA consults on draft guidelines on retail deposits subject to different outflows for the purpose of liquidity reporting

The EBA launches a discussion on possible treatments of unrealised gains measured at fair value

The EBA publishes its second interim report on the consistency of RWAs in the banking book of EU banks

SEPTEMBER

The EBA consults on draft RTS on methods for identifying the geographical location of relevant credit exposures

The ESAs highlight cross-sectoral risks

The EBA consults on draft XBRL taxonomy for secondary reporting

The EBA publishes results of the Basel III monitoring exercise as of the end of 2012

The EBA publishes final draft RTS on close correspondence for own-issued covered bonds

OCTOBER

The Joint Committee of the ESAs publishes the 2014 work programme

The EBA issues the work programme for 2014

The EBA publishes the end of term report of its BSG

The Joint Committee of the ESAs publishes a list of financial conglomerates

The EBA publishes final draft ITS on NPLs and forbearance reporting requirements

The EBA consults on draft RTS and ITS related to liquidity requirements

The EBA consults on draft guidelines on the discount rate for variable remuneration

The EBA consults on draft ITS on disclosure for leverage ratio

The EBA consults on the use of the legal entity identifier (LEI)

The EBA publishes a risk dashboard of the EU banking sector

The EBA publishes final draft ITS on asset encumbrance

NOVEMBER

ESMA and the EBA consult on complaints-handling guidelines for the investment and banking sectors

The ESAs consult on the removal of mechanistic reliance on credit ratings

The EBA publishes a peer review on the implementation of the stress testing guidelines

The EBA publishes a response to the report by Philippe Maystadt 'Should IFRS standards be more European?'

The EBA consults on draft RTS on own funds

The ESAs publish a joint position on product oversight and governance processes

The EBA presents data on high earners in EU banks for 2012

DECEMBER

The EBA publishes XBRL taxonomy for remittance of supervisory reporting by competent regulatory authorities

The EBA publishes final draft RTS on conditions for assessing the materiality of extensions and changes of internal approaches for credit and operational risk

The EBA publishes final draft RTS on the determination of the overall exposure to a client or a group of connected clients in respect of transactions with underlying assets

The EBA publishes guidelines on retail deposits subject to different outflows for the purpose of liquidity reporting

The EBA publishes a follow-up review of banks' transparency in their 2012 reports

The EBA consults on methodology for global systemically important institutions

The EBA warns consumers about virtual currencies

The EBA agrees on a definition of identified staff for remuneration purposes

The EBA publishes final draft RTS and ITS on passport notifications
The EBA publishes final draft RTS on own funds
The EBA publishes final draft ITS on joint decisions on institution-specific prudential requirements
The EBA publishes final draft RTS and ITS on information exchange between home and host competent authorities
The EBA publishes the outcome of the 2013 EU-wide transparency exercise
The EBA consults on significant credit risk transfer for securitisation transactions
The EBA publishes final draft RTS and ITS on securitisation retention rules
The EBA publishes final draft RTS and ITS on market risk
The EBA publishes reports on the comparability of RWAs and pro-cyclicality
The EBA publishes final draft ITS on metrics for monitoring additional liquidity
The EBA consults on the minimum amount of professional indemnity insurance for mortgage credit intermediaries
The EBA launches a discussion on the methodology for the assessment of liquidity and funding risk under supervisory review
The EBA publishes final draft ITS on the reporting of the hypothetical capital of a central counterparty (CCP)
The EBA publishes final draft ITS on supervisory disclosure
The EBA publishes technical advice on possible treatments of unrealised gains
The EBA consults on harmonised definitions and templates for the funding plans of credit institutions
The EBA publishes a report on the risks and vulnerabilities of the EU banking sector
The EBA publishes final draft RTS for the identification of the geographical location of credit exposures
The EBA consults on the disclosure of encumbered and unencumbered assets
The EBA publishes reports on liquidity
The EBA publishes final guidelines on capital measures for FX lending to unhedged borrowers under the SREP
The EBA publishes final draft RTS on market risk and CVA risk

Achievements in 2013

Regulation

The EBA's contribution to the single rulebook in banking

In 2013 the EBA intensified its regulatory activity to be able to deliver on the mandates set out in the CRD IV and CRR, which entered into force on 17 July 2013. The bulk of the regulatory work focused on the finalisation of draft technical standards on own funds, as well as on the areas of supervisory reporting, market risk, liquidity risk, credit risk and remuneration.

The EBA also provided the European Commission with technical input for the preparation of delegated acts. In this respect, the EBA published two important reports on liquidity, assessing the impact of the liquidity coverage requirement and providing definitions of high-quality liquid assets (HQLAs), which institutions need to hold to fulfil the liquidity coverage requirement.

Another important area where the EBA increased its focus in 2013 was that of the recovery and resolution of EU banking groups. In this regard, the EBA issued a recommendation on the development of recovery plans and started its preparatory work on a range of technical standards in view of the mandates set out in the forthcoming BRRD.

Finally, The EBA did substantial work to analyse and address the issue of consistency and comparability of RWAs in the banking system and produced a number of reports.

Finalisation of the technical standards on own funds

The finalisation of the technical standards on own funds is now providing full clarity on the definition of own funds across the EU.

In 2013 the technical standards on own funds were finalised following the consultations run in the course of 2012. The standards were published 1 month after the publication of the CRR, on 26 July 2013, with a view to giving the



greatest possible clarity to credit institutions. The final adoption of the standards as an EU regulation for direct application throughout the EU is subject to the endorsement of the European Commission and publication in the *Official Journal of the European Union* (OJEU).

The new rules set up features linked to capital instruments and reserves, recognition of undertakings such as mutuals, cooperative societies, savings institutions or similar institutions and the consequential disclosure of own funds. In particular, the RTS on own funds (part I) specify the following different elements of own funds.

- CET1 capital, in particular foreseeable charges or dividends, features of the capital instruments of mutuals, cooperative societies or similar institutions, applicable forms and nature of indirect funding of capital instruments, limitations on redemption of own-funds instruments.
- Additional tier 1 capital, in particular the form and nature of incentives to redeem, the conversion or write-down of the principal amount, the use of special purpose entities.
- Deductions from CET1 capital and from own funds in general, including deductions of capital instruments of financial institutions and insurance/reinsurance undertakings, losses for the current financial year, deferred tax assets, defined benefits pension fund assets, foreseeable tax charges.

- General requirements like indirect holdings arising from index holdings, supervisory consent for reducing own funds.
- Transitional provisions for own funds in terms of grandfathering.

The RTS on own funds (part II) specify the conditions according to which competent authorities may determine that a type of undertaking recognised under applicable national law qualifies as a mutual, cooperative society, savings institution or similar institution for the purpose of calculating own funds. In particular, these features are the following.

- Institutions referred to in the draft RTS operate under specific dedicated rules under national company laws. The applicable national rules are listed in the draft RTS.
- In line with the mandate given to the EBA, the draft RTS focus on elements which are of relevance to own funds (features linked to capital, reserves, etc.) and which may lead competent authorities to recognise each type of undertaking as a mutual, cooperative society, savings institution or similar institution.

The draft RTS on own funds (part III) result from additional mandates granted to the EBA in the final version of the CRR. They cover the deduction of indirect and synthetic holdings, the conditions for qualifying as broad market indices and the treatment of minority interests, and for the purpose of calculating own funds:

- regarding the deduction of indirect and synthetic holdings, the purpose is to achieve greater harmonisation as well as increased conservatism in the way the deductions of investments in financial sector entities as well as own capital instruments are applied;
- regarding broad market indices, the purpose is to put forward criteria for broad market indices so as to ensure that the interest rate/dividend paid by institutions on floating rate capital instruments does not increase when the credit standing of the institution decreases;
- regarding minority interest, the purpose is to harmonise the calculation of minority interests to be included in regulatory capital.

Finally, the ITS on disclosure for own funds aim at ensuring a uniform approach to disclosure for own funds by institutions and across jurisdictions in order to allow the detailed assessment of banks' capital positions and to make cross-jurisdictional comparisons. The requirements contained in the draft ITS are directed at institutions which are asked to complete three sets of templates: a general own funds disclosure template reflecting the capital position of institutions; a transitional disclosure template covering the phasing in of the regulatory adjustments; and a template describing the main features of an institution's capital instruments.

The EBA is now achieving full coverage of the own funds area as requested under the CRR for technical regulations. A consultation paper on the fourth and final part of the draft RTS on own funds was published on 27 November; it aims at setting harmonised criteria for instruments with multiple distributions that would create a disproportionate drag on capital, as well as clarifying the meaning of preferential distributions.

Key contribution to regulatory reporting standards

The EBA delivered several ITS in the area of supervisory reporting to the European Commission in 2013.

The EBA finalised, in particular, supervisory reports related to own funds, financial information, losses stemming from lending collateralised by immovable property, large exposures, leverage ratio and liquidity ratios, forbearance and non-performing exposures, and asset encumbrance.

Uniform reporting requirements are necessary to ensure fair conditions for competition between comparable groups of credit institutions and investment firms. In this respect the ITS on reporting requirements will lead to greater efficiency for institutions, but also to greater convergence of supervisory practices across Member States, allowing supervisors to identify and assess risks consistently across the EU and to compare EU banks in an effective manner.

The EBA will strive to regularly update the ITS on supervisory reporting where necessary, in particular when changes to the level 1 text (CRR) are ongoing or expected.

Remuneration policies under review

The remuneration policies of institutions are key in order to provide appropriate incentives to staff for long-term-oriented and prudent risk taking, thus contributing to the performance of the institution and the stability of the financial system. Already under CRD III, strict requirements on remuneration policies and variable remuneration had been introduced to provide for incentives for long-term-oriented and prudent risk taking, as inappropriate incentives for management and employees – for instance with disproportionate rewards on the upside and insufficient penalties on the downside – have often led to short-term-oriented and excessively risky strategies.

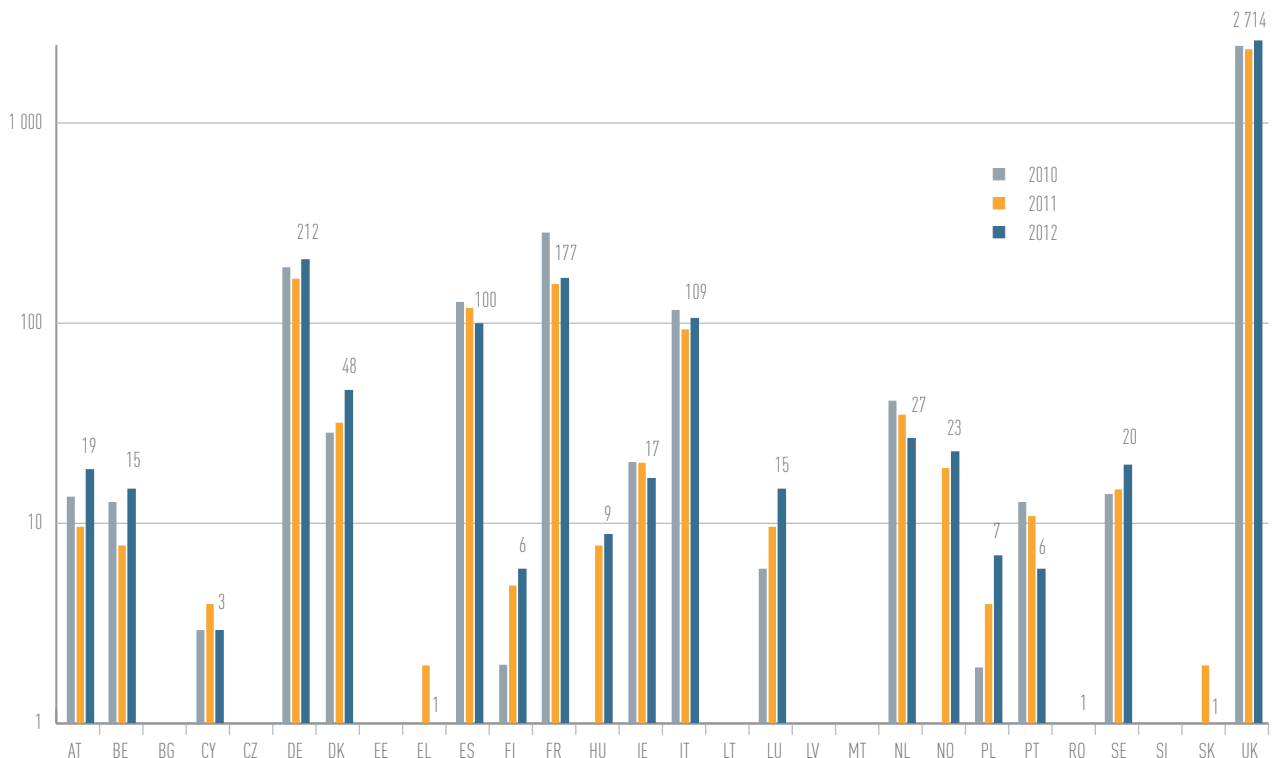
Within CRD IV, the Parliament and the Council introduced additional requirements regarding remuneration policies, in particular for staff whose professional activities have a material impact on the institution’s risk profile, most prominently the setting of a maximum ratio between the fixed and variable remuneration which can be awarded. The EBA was mandated, within CRD IV, to develop draft RTS in two key areas of the remuneration

framework, namely the identification of staff whose professional activities have a material impact on the institution’s risk profile (identified staff) and the instruments which can be used when awarding variable remuneration.

The EBA submitted both draft RTS which will form part of the single rulebook to the European Commission for adoption. The draft RTS on identified staff combine qualitative and appropriate quantitative criteria for the identification of staff leading to an identification of staff that is consistent across the EU. The RTS on the classes of instruments which can be used for the purposes of variable remuneration define a broad set of instruments which are appropriate for variable remuneration and ensure that institutions’ credit quality is reflected in these instruments.

The EBA has published its report on the aggregated figures for high earners for 2010–12. Competent authorities reported to the EBA data on staff earning EUR 1 million or more and additional remuneration benchmarking data for selected groups of institutions. It can be observed that the number of high earners (and also the total average remuneration of staff in institutions) increased in 2012.

Figure 1: Number of high earners (logarithmic scale, data for 2010–12, values displayed for 2012 only)





Market risk

The EBA in 2013 published four final draft RTS and two ITS related to market risk and to credit valuation adjustment (CVA) capital requirements. The market risk area is the first risk area to be covered by level 2 regulations after the publication of the CRR.

With a view to promoting larger and open markets across the EU, the EBA produced its final draft RTS on the definition of the term 'market' to be applied for the calculation of the overall net position in equity instruments under the market risk standardised rules. The overall net position in equity instruments is used to calculate own-funds requirements for equity general market risk according to Article 343 of the regulation. The RTS have defined the term 'market' based on a currency criterion, therefore referring to the euro area as one 'market' for market risk in the EU. For the other jurisdictions, 'market' is defined using a nationality criterion. The currency criterion applied for the euro area recognises that the introduction of a single currency has addressed some important elements of segmentation among equity markets, such as the elimination of foreign-exchange risk, the presence of a common currency in which company results are reported or the existence of an integrated market with common rules.

The EBA also published two ITS to facilitate and ensure homogeneous implementation in

the area of foreign-exchange and equity risk. An ITS was issued on closely correlated currencies identifying a list of relevant closely correlated currencies for the purposes of calculating the capital requirements for foreign-exchange risk according to the market risk standardised rules. Currency pairs are considered to be closely correlated if their exchange rate shows low likelihood of loss in positions equal in value and opposite in direction, over both a 3- and a 5-year period, according to the specific criteria set out in Article 354 of the CRR. Matched positions in currency pairs that are deemed to be closely correlated are subject to a 4 %, instead of an 8 %, capital requirement. The final draft ITS on appropriately diversified indices list relevant exchange-traded and appropriately diversified indices for which specific risk capital requirements can be ignored. In order to qualify as appropriately diversified: (i) the index must comprise a minimum number of equities; (ii) none of the equities or concentration of equities must significantly influence the volatility of the index; and the index must comprise equities that are diversified from both (iii) a geographical and (iv) an economic perspective.

The EBA produced final draft RTS for calculating capital requirements for non-delta risks of options in the standardised market risk framework. These RTS define a range of methods to reflect, in the own-funds requirements, all the risks, other than delta risk, in a manner proportionate to the scale and

complexity of institutions' activities in options and warrants. The RTS largely implement the Basel II framework and provide for the following methods: (i) a simplified approach to be applied by institutions that only buy options; (ii) the delta-plus method that can be applied by institutions that also sell options; and (iii) the scenario approach that is more sophisticated and addressed to institutions dealing with a considerable trading activity in options. In addition, for non-standard options, the EBA has introduced a new conservative treatment.

The final draft RTS on the definition of materiality thresholds for specific risk in the trading book set out criteria for assessing when the specific risk of debt instruments in the trading book — at both solo and consolidated level — is 'material' enough to trigger an evaluation by the competent authority. After this evaluation, competent authorities shall decide whether they encourage banks to enhance further their internal assessment capacity and increase the use of internal models for capital calculations.

As regards the CVA capital requirements, the EBA published final draft RTS on CVA risk for the determination of a proxy spread and the specification of a limited number of smaller portfolios. These RTS specify the data-quality requirements and the minimum granularity of the attributes of rating, industry and region that institutions should consider when estimating an appropriate proxy spread for the determination of the own-funds requirements for CVA. These standards ensure an operational framework that uses the approved internal model for the specific risk of debt instruments for market risk. The RTS also specify the number and size of portfolios that fulfil the criterion of a limited number of smaller portfolios and, therefore, are allowed into the CVA advanced approach despite not forming part of the scope of the internal model method (IMM) for counterparty credit risk.

In addition, the EBA issued an opinion on CVA risk for the determination of a proxy spread, which states the main reasons why the EBA adopted a flexible approach in order to operationalise the internal model option in the final draft RTS on the determination of a proxy spread.

The EBA's contribution to the preparation of delegated legislation

Liquidity reports

In December 2013 the EBA published two reports on liquidity according to its mandate in Article 509 of the CRR. The reports cover (i) the impact assessment for the LCR and (ii) definitions of HQLAs which institutions need to hold to fulfil the LCR. These reports provide the European Commission with technical input for the forthcoming delegated act under Article 46 of the CRR which will specify the LCR.

Report on the impact assessment for liquidity measures

This report is based on an empirical analysis of liquidity data provided by EU banks on a voluntary basis, which covers about two thirds of total EU banking assets. In addition, the EBA has compiled a number of case studies and performed a comprehensive literature review, which enabled it to test the economic consequences of the LCR under a wide range of scenarios.

The analysis carried out by the EBA showed that the introduction of the LCR would likely not have a detrimental impact on the stability and orderly functioning of financial markets, on the economy or on the supply of bank credit. Mainly, this can be explained by the fact that EU banks already show an average LCR of 115 %.

However, the report showed that the potential impact differs depending on the business model. While large and diversified banks tend to be well adapted to the LCR, smaller and specialised institutions seemed to have larger-scale adjustments to make. In some cases, notably consumer finance, the report discusses whether the LCR could lead to unintended consequences and proposes specific derogations for certain business models under stringent and objective conditions. With these exceptions, the report concludes that the LCR as defined by the Basel Committee on Banking Supervision (BCBS) is an appropriate measure across the EU.

Report on definitions of extremely high-quality liquid assets and high-quality liquid assets and on operational requirements of liquid assets

The purpose of this particular report was to categorise specific asset classes into different levels, specifically extremely HQLAs and HQLAs, targeted to serve as a fundament for the European Commission for the specification of the liquidity buffer in the LCR under the delegated act. Furthermore the report assesses the operational requirements for liquid assets as provided for by the CRR.

The EBA conducted an empirical analysis aimed at reaching definitions of liquid assets at an asset-class level. A range of volume- and price-based liquidity metrics were calculated to enable the market liquidity of each asset class under investigation to be tracked through time. By means of econometric analysis within each asset class, suitable variables, such as credit quality, issue size or time to maturity, amongst others, were identified with explanatory power of liquidity in each asset class. Uniform definitions of liquid assets were finalised via a detailed analysis of all possible combinations of definitions using the key explanatory variables identified for each asset class.

On the basis of the empirical findings supplemented by supervisory judgement the EBA issued a set of recommendations of definitions of liquid assets. The conclusions reflected the importance the EBA attaches to the alignment of the EU legislative framework with the international standards defined by the BCBS (the so-called Basel framework).

In particular, the EBA recommended that all sorts of bonds issued or guaranteed by EEA sovereigns and EEA central banks in the domestic currency be considered, and also those issued or guaranteed by supranational institutions (the Bank for International Settlements, the International Monetary Fund (IMF), the Commission, multilateral development banks, the European Financial Stability Facility and the European Stability Mechanism) as transferable assets of extremely high liquidity and credit quality. Furthermore, the EBA recommended following the empirical definitions of transferable assets of high liquidity and credit quality regarding covered bonds, corporate bonds, residential mortgage-backed securities (RMBS) and bonds issued by local govern-

ment institutions. Moreover the EBA recommends considering common equity shares as HQLAs in accordance with the requirements established in the text of Basel III on liquidity. The report concludes that the minimum haircuts set for assets of high liquidity and credit quality in the Basel LCR text would be sufficient in Europe for the assets defined in that category in this analysis.

On operational requirements for liquid assets the report concludes that the requirements as provided for by the CRR are well founded and will ensure a high degree of certainty that a bank's liquid assets will serve their purpose in a stress situation. The EBA does however suggest clarification or a review of specific conditions.

Prudent valuation and technical advice on filters

After the publication of a discussion paper in November 2012, the EBA in July 2013 conducted a public consultation on draft RTS setting out the requirements related to prudent valuation adjustments of fair-valued positions.

The objective of these draft RTS is to ensure that institutions across the EU perform a more harmonised prudent valuation of their fair-valued positions. To this end, the draft RTS present a methodology to calculate additional valuation adjustments (AVAs) for the purpose of determining the prudent value of fair-valued positions, based on two approaches:

- a simplified approach, which can be used by institutions provided their absolute value of on- and off-balance-sheet fair-valued assets and liabilities is below EUR 15 billion;
- a core approach, which is intended to provide a consistent framework for determining AVAs under a target level of certainty of 90 %, using either a data-based or expert-based approach and including diversification benefits.

In parallel with the consultation, the EBA performed a comprehensive quantitative impact study (QIS) to assess the capital impact of these proposals. The QIS was completed on a 'best-efforts' basis by 59 institutions across 15 jurisdictions. An EBA FAQ process was set up to answer questions on the QIS template and the implementation of prudent valuation requirements.

The QIS results were used in the finalisation of the draft RTS on prudent valuation, which are to be submitted to the European Commission in early 2014.

All in all the QIS showed that the initial calibration on an overall level appeared appropriate, but that the requirements will have a capital impact. On average the expected valuation adjustment was found to be equivalent to 1.5 % of the CET1 of institutions (EUR 227 million per institution, on average), which is on average 0.07 % of the value of fair-valued positions on the balance sheet of institutions.

In December 2013 the EBA also provided technical advice to the European Commission on the possible treatment of unrealised gains for instruments measured at fair value. The advice analyses the opportunity to introduce a prudential filter to exclude unrealised gains from CET1 and considers the different arguments in favour of and against the introduction of prudential filters. Based on this analysis, the advice explains that there are prudential arguments which recommend the introduction of prudential filters for unrealised gains. However, the advice also acknowledges that, if the Commission decides to introduce a prudential filter, there are some aspects that may deserve particular attention, such as future developments in the Basel framework to ensure the consistency of these developments with this recommendation and the interaction with the EBA proposals on prudent valuation.

Securitisation and covered bonds reports

In 2014 the EBA is mandated to develop a comprehensive report on covered bonds, assessing practices in current national covered bond frameworks and advising on aspects of the prudential treatment of covered bonds in the EU. In 2013 the work on covered bonds was limited to ensuring strict prudence in the backing of the underlying values against the bonds in one specific area. The final draft RTS on close correspondence, published on 30 September 2013, specify the criteria for defining the close correspondence between the fair value of the covered bonds and the fair value of the assets, which justifies gains and losses on liabilities following changes in own credit risk being taken into account when computing own-funds requirements. In the absence of a close correspondence, as specified by the RTS, changes to the institution's own credit

risk cannot be reflected in the fair value of the institution's liabilities as these would result in a non-prudent strengthening of the institution's capital position. The close correspondence ensures that, following changes in the institution's own credit risk, the change in the fair value of both the institution's assets and its liabilities leaves the institution's capital position unchanged.

In the related area of securitisations, more work was undertaken during 2013. Specifically, in order to ensure the prudent implementation of the own-funds requirements in the area of securitisations, as part of the RTS on own funds (part I) published on 13 December 2013, the EBA clarified the treatment of securitisations through the standards on the gain on sale. These standards specify further the concept and the treatment of a gain on sale, defined as any increase (or part of an increase) in equity under the applicable accounting framework arising from future margin income in the context of a securitisation transaction.

The CRR inherited from CRD II the principle of retention of net economic interest, aimed at enhancing the safety and stability of the securitisation business, and included new mandates for the EBA in that regulatory space. On 22 May 2013 the EBA launched a 3-month consultation on the draft RTS retention rules and the draft ITS on the measures to be taken in case of non-compliance with such rules. In July 2013 a public hearing with market participants was held to complement the consultation and on 19 December 2013 the final draft RTS and ITS were published. The RTS were drafted to ensure an appropriate alignment of interest and information between securitisation sponsors, originators and original lenders, on one side of the transaction, and investors on the other side of the securitisation transaction. In addition, provisions were specified in order to facilitate the implementation of the requirements on the retention of economic interest, as well as the disclosure requirements on the sponsor, originator or original lender and the due diligence requirements on investors. The ITS provide criteria for the assessment of breaches of the retention requirements, as well as the implementation conditions and the calculation of additional risk weights to be applied by competent authorities. Both regulations ultimately aim at re-establishing securitisation on a sustainable basis, mainly by encouraging market partici-

pants to develop a more transparent, safe and uniform securitisation market and by enabling more convergence of supervisory practices across the EU with regard to the securitisation retention rules and related requirements.

Finally, on 17 December 2013, the EBA launched a public consultation on its draft guidelines on significant risk transfer for securitisation transactions. A public hearing was held in January 2014 and consultation of stakeholders will last until 17 March 2014. Securitisation can be used as an effective risk management tool and the transferred credit risk can be reflected in the computation of institutions' own-funds requirements, however it is essential that the transfer of credit be carefully assessed by both competent authorities and originator institutions. The guidelines will be part of the EU's single rulebook for the banking sector and will ensure harmonised assessment and treatment of significant risk transfer across all EU Member States.

The EBA's extended mandate in recovery and resolution

Throughout 2013 the EBA increased its focus on the area of recovery and resolution of EU banking groups. In line with the G20's indications, cross-border convergence and co-operation on recovery and resolution planning is identified by the draft BRRD as the stepping stone to repair the current retrenchment of banking activity along national boundaries, spurred by the crisis. Through the work carried out so far, and foreseen in the upcoming BRRD, the EBA aims to provide the necessary legal and institutional underpinnings for credible and reliable cooperative solutions on recovery and resolution for cross-border banks, thus facilitating capital and liquidity management on a truly cross-border basis.

Recommendations on the development of recovery plans

In January 2013 the EBA issued a formal recommendation on the development of recovery plans. The recommendation highlighted the need for group recovery plans to be drafted in accordance with the international standards agreed under the auspices of the Financial Stability Board (FSB), and consistently with

templates drafted by the EBA. The latter covered in particular the following key elements that should be addressed in a recovery plan:

- general but comprehensive information on the institution, its governance structure, its core functions and its critical functions;
- the list and description of recovery options available in a crisis situation and an assessment of their execution and impact;
- the measures that the institution plans to implement to facilitate, in the future, the update of the recovery plan or its implementation in crisis times.

Consultations in relation to standards and guidelines in the area of recovery planning

The EBA has also worked in anticipation of the final BRRD text, drafting a range of draft technical standards specifically focused on the 'recovery' area. The final BRRD will specify nearly 40 mandates for the EBA to adopt guidelines, and draft RTS and ITS to be endorsed by the Commission by means of delegated acts. These products cover recovery and resolution planning (including questions of proportionality in these contexts), resolvability assessment and measures to overcome impediments to resolvability, early intervention and resolution triggers, intragroup financial support, conditions for the use of resolution tools, the definition of bail-in mechanisms and the minimum requirement for eligible liabilities, valuation criteria for the use of the tools, notifications and information exchanges, and the functioning of resolution colleges.

To allow the staggering of workloads and consultation regarding delivery of the various mandates, the EBA published a first set of consultation papers in 2013:

- on 11 March 2013 the EBA published a consultation paper on the contents of recovery plans, receiving 22 responses;
- on 20 May 2013 the EBA published a consultation paper on the matters that competent supervisors must assess when reviewing individual and group recovery plans developed by financial institutions, receiving 13 responses;

- on 20 May 2013 the EBA also published a consultation paper specifying the range of scenarios to be designed by financial institutions when testing their recovery plans, receiving 14 responses.

Frontloading the work on these technical standards will allow the EBA to fast-track the adoption of these standards in 2014 once the BRRD is finalised.

Promoting the application of proportionality in prudential regulation

The principle of proportionality is central within the EU banking regulation, which recognises the importance of the diversity of the EU banking system and explicitly refers to the need to apply rules in such a way that this diversity is acknowledged and preserved.

Although always keeping in mind the basic premise that a single EU market needs a single EU rulebook, the EBA recognises the importance of the proportionality principle and assigns great importance at developing effective prudential regulation which is targeted and proportional to the size, complexity, business model and risk profile of institutions. The EBA has made an effort to incorporate in its technical standards and guidelines a range of measures that would provide some types of institutions with relief in the application of rules, which would be otherwise undeservedly strict. At the same time, the EBA believes that there is a strong need to draft proportionality in a way that is sufficiently precise, to avoid opening the door for regulatory arbitrage and creating loopholes.

Given that the active involvement of stakeholders in providing the EBA with solid evidence on the need to differentiate the regulatory treatment of institutions is essential at all stages of the process of regulatory development, the EBA hosted a workshop on proportionality measures for regulatory purposes on 22 October 2013. The main aim of the workshop was to identify specific measures that the EBA could use in the development of its technical standards and guidelines to address a legitimate need for proportionality. As a concrete outcome of the workshop the EBA confirmed its commitment in considering the need for the application of proportionality measures in each of its regulatory instruments and, in fact, this analysis is now part of the impact

The proportionality principle ensures that rules are effective, but at the same time targeted and proportionate to the size, complexity, business model and risk profile of institutions. In this respect, proportionality gives smaller institutions and institutions with certain business models and specific risk profiles some relief in the application of rules without stifling their ability to continue or grow their business.

assessment which is conducted during the development of these instruments. This workshop brought together key industry stakeholders, representatives from NSAs and other EU institutions, and EBA staff. The high number of registrations for the workshop showed the importance that both the industry and public bodies attribute to the application of the proportionality principle in prudential regulation.

Fostering a common supervisory approach across the EU through standards and practices

Technical standards and model changes on credit risk and operational risk

The permission to use either the internal ratings-based (IRB) approach or the advanced measurement approaches (AMA) is valid only for the approved approach. Regular adjustments are needed to maintain the relevance of all these approaches for the calculation of own-funds requirements and for risk management purposes. The need for adjustments may stem from changes in internal or external factors, for example changes in the business activity or organisational structure of the institution. Institutions are encouraged to further develop their internal approaches.

In this context, the EBA has been mandated in accordance with Article 143(5) and Article 312(4)(b) and (c) of the CRR to report to the Commission on the conditions for assessing the materiality of extensions and changes of internal approaches when calculating own-funds requirements for credit and operational risk. Therefore, on 5 December the EBA published its final draft RTS, which will be part of the single rulebook aimed at enhancing regulatory harmonisation in the EU.

According to the CRR, all institutions shall apply for permission whenever they intend to implement any material extension and change to their internal approaches for credit and operational risk. In this respect the proposed RTS aim at harmonising the assessment of the materiality of extensions and changes to internal approaches, as well as at ensuring that their approved internal approaches comply with the regulatory requirements. Also they specify the modalities of notification.

The key features of the proposed RTS include the following.

- The introduction of three categories of model extensions and changes [which require permission, *ex ante* notification and *ex post* notification]. Such an approach, which is already supervisory practice in several Member States, would reduce the supervisory burden for both the competent authorities and the institutions.
- The introduction of a comprehensive list of qualitative conditions, which is linked to the minimum requirements for internal approaches, for classification of extensions and changes to the internal approaches into one of the three categories mentioned above.
- The design of the quantitative threshold as a backstop regime when determining the materiality of an extension and change since it may still alter the own-funds requirements or, where applicable, the risk-weighted exposure amounts.
- The inclusion of standardised documentation requirements, which enable competent authorities to assess the compliance of institutions with the above rules.

Benchmarking risks models

The EBA has been mandated in accordance with Article 502 of the CRR to report to the Commission on how the methodologies of institutions under the IRB approach should converge with a view to more comparable capital requirements while mitigating pro-cyclicality. This is a preparatory step before full benchmarking exercises can be run in a recurrent manner in the EU under Article 78 of the CRD.

Therefore, in 2013, the EBA undertook substantial work to analyse the issue of comparability and published the following studies:

- (i) interim top-down report on the consistency of IRB capital requirements;
- (ii) report on low-default portfolio (LDP) benchmarking exercise;
- (iii) report on SMEs and residential mortgages;
- (iv) report on the comparability of supervisory rules and practices.

Furthermore, the EBA also released its report on the pro-cyclicality of banks' capital requirements.

Finally, four reports relating to the consistency of credit risk RWAs, together with the pro-cyclicality report, were compiled in a summary report which has been submitted to the European Commission in line with the EBA's mandate in the CRR.

The studies, jointly conducted by the EBA's Regulation and Oversight Department, suggested that divergences in capital requirements are largely risk based, which implies that the risk-sensitive approach of the regulatory framework is in general successful. However, it suffers from several deficiencies, as the modelling choices may at times have been left too broad, thus resulting in diverging practices across jurisdictions and banks. Also it is very difficult to disentangle the extent to which these divergences stem from different regulatory frameworks in place across countries, from supervisory practices or from bank-specific modelling choices.

The EBA acknowledged that existing mandates coming from the CRR and CRD IV, namely RTS, ITS and guidelines, will cover many of the observed differences in the regulatory implementation as well as in bank and supervisory practices. However, not all the drivers are sufficiently covered by these mandates, and therefore the summary report includes the policy responses that the EBA considers as important for addressing concerns about RWA consistency. In this respect, the EBA will focus its future work on the following aspects.

- Enhancing disclosure and transparency of RWA-related information.
- Supporting competent authorities in properly implementing the single rulebook with the delivery of existing mandates set out in the CRR. These include the important benchmarking work on RWA parameters that supervisors can use to assess model outcomes.
- Developing additional guidance that specifically addresses and facilitates consistency in supervisory and bank practices, which includes for example uniform default definitions and harmonised treatment of defaulted assets under the IRB approach, clearer guidance on probability of default (PD) and loss-given default (LGD) estimations and treatment of low-default assets.

The summary report leverages the following pieces of empirical evidence from individual studies:

Top-down report

This report contains a top-down (aggregated data) assessment of the banking book. From this exercise the EBA noticed that four drivers — partial use (permanent and roll-out), standardised approach (SA) risk weights (RWs), IRB portfolio mix, and the share and RWs of defaulted assets — can explain around 50 % of differences in the global charge (GC). It also appears that the differences in implementation of the IRB approach are linked to different bank and supervisory practices. A residual key component of the variation is due to the inherent risk in the portfolios of the banks and represents drivers of differences in capital requirements which are not intended to be eradicated by the IRB approach regulatory framework.

Report on low default portfolio

This report outlines the interim results of the second stage of the EBA's work on banking book exposures and focuses on sovereigns, institutions, large corporate and other corporate portfolios. The following differences were identified: the scope of the application of internal models to LDP counterparts; PD

and LGD parameters for the same exposure to a counterparty; the definition of default and the computation of the default rate used for the calibration of the internal models; the computation of RWs and expected losses on defaulted assets; the computation of maturity and the credit conversion factor (CCF) parameters. Moreover, the report noted that banks' choices or supervisory requests to apply minimum PDs, LGDs or add-ons to the RWs computed with the internal models could create challenges in comparing the outcomes.

Report on small and medium-sized enterprises and residential mortgages

This report outlines the interim results of the third stage of the EBA's work on banking book exposures and focuses on SMEs and residential mortgage portfolios. One key finding was the importance of defaulted assets, which account for over half of the variation in RWs and expected losses. The underlying portfolio mix represents around a third of the variation in the overall GC and RW for non-defaulted assets. The remaining two thirds of the dispersion for non-defaulted assets can be attributed to other drivers such as differences in underlying credit risk, use of credit risk mitigation, modelling and supervisory practices. The geographical location of the exposures, notably the different economic conditions and other country-specific aspects, also play an important role. Regarding SMEs, the size of the enterprise influences variations in RWAs.



Report on the comparability of supervisory rules and practices

The EBA also issued a report on the impact of supervisory rules and practices on comparability of capital requirements under the IRB approach across the EU. On the basis of data collected from EU supervisors, the EBA noticed divergences in terms of how regulatory frameworks are implemented at national level. Some aspects were identified that may require additional work to ensure better harmonisation of supervisory practices across the EU. These relate to aspects such as supervisory practices, roll-out plans, PD and downturn LGD computation.

Report on pro-cyclicality of the IRB approach

As mandated by the European Commission, the EBA also assessed whether the CRD contributes to pro-cyclicality in the financial system, i.e. whether the CRR exacerbates business cycle fluctuations. The question addressed in this report is whether the design of the current CRR — risk-sensitive approach in IRB models — is a cause of higher business cycle fluctuations. On the basis of currently available data, the EBA found limited evidence for pro-cyclicality of capital requirements, and could not establish a clear link between capital requirements legislation and pro-cyclicality.

The single rulebook Q & A tool allows NSAs, institutions and their associations, as well as other stakeholders, to submit questions relating to the practical application and consistent implementation of CRD IV and the CRR, as well as related technical standards and guidelines developed by the EBA.

This ensures the consistent and effective application of the new regulatory framework across the single market, and hence contributes to the building of the single rulebook in banking regulation.

The process entails close and ongoing interaction between the EBA and the European Commission to ensure that the answers are fully consistent with EU legislative texts.

Report on variability of RWAs for market risk portfolios

To complement the work related to the credit risk and IRB-related models, market risk model comparability was also investigated in a preliminary manner. This report outlines the conclusions stemming from a market hypothetical portfolio exercise (HPE) which the EBA conducted in 2013 in parallel with a similar exercise performed by the Basel Committee. The report focuses on the level of variability in banks' internal models for market RWAs. This study shows that, for banks applying historical simulation, around 30 % of the variability observed for individual portfolios and 50 % for aggregated ones may be driven by modelling options explicitly provided for in the CRR. The EBA has also conducted a profit and loss (P & L) analysis, which is complementary to the assessment of variability based solely on model outcomes. This analysis provides, for each individual portfolio, an assessment of the degree of P & L volatility and correlation across banks.

Developing the single rulebook Q & A process

The single rulebook Q & A tool was launched by the EBA, in cooperation with the European Commission, in July 2013 following the publication of the CRR and CRD in the OJEU. The purpose of the Q & A tool (<http://www.eba.europa.eu/single-rule-book-qa#search>) is to ensure the consistent and effective application of the new regulatory framework across the single market and to contribute to the creation of the single rulebook for banking regulation.

The tool offers a one-stop interface for NSAs, institutions and their associations, as well as other stakeholders, to submit questions relating to the practical implementation of the CRD IV, the CRR and the related technical standards (RTS and ITS) developed by the EBA and adopted by the European Commission, in addition to the EBA guidelines.

The majority of questions submitted to date relate to the provisions of the CRR — in particular in the areas of own funds, supervisory reporting, market risk, credit risk and liquidity risk. As of year-end 2013, the tool had received just under 700 questions, around 60 % of which had come from credit institutions (and industry associations) and 15 % from



NSAs, primarily relating to the practical application of the CRR, and to a lesser extent to the CRD, though it is expected that this trend will shift towards questions relating to RTS/ITS as they are adopted throughout 2014 and 2015. As such the Q & A tool has helped to provide practical regulatory and supervisory guidance to stakeholders, primarily NCAs and credit institutions.

The development of answers is highly resource intensive, and is carried out in close cooperation with the European Commission. Many of the questions received so far have been of a highly technical nature, and have taken longer to answer than originally envisaged. The EBA nevertheless remains committed to providing coherent and constructive answers in as timely a manner as possible and adapting resources to meet the scale of the enterprise.

As part of this commitment, in 2014 the EBA will review the operation of the Q & A process with the objective of improving the handling of questions and increasing the efficiency of the process.

At the same time the EBA is preparing to expand the scope of the tool — currently limited to practical implementation of the CRR and the interpretation of the CRD and associated technical standards and guidelines — to cover

other relevant legislation, most notably the forthcoming BRRD.

It is the ultimate intention that the outcome of the Q & A tool will form part of an interactive single rulebook, i.e. a single online resource consisting of the various regulations and directives relating to the supervision of credit institutions, with links to final draft ITS, RTS and guidelines and to the final published Q & A.

Supervisory disclosure

In December 2013 the EBA published final draft ITS which specify the format, structure, contents list and annual publication date of the supervisory information to be disclosed by competent authorities in the banking sector. These final draft ITS cover different areas, including templates for competent authorities to disclose local legislative documents, information on exercising options and national discretions, general criteria and methodologies used for the supervisory review and evaluation process (SREP) and aggregate statistical data on key aspects of the implementation of the prudential framework.

This final draft followed the conclusion of the consultation process, which ended in October 2013. The finalised draft ITS took account of the responses to the extent that they could be incorporated into the final standard.

Contributing to the assessment of the international regulatory framework in the EU

As part of its regulatory mission the EBA is participating in the work of the BCBS. The EBA currently has observer status, together with the European Commission, at the BCBS and actively participates in working groups, where the regulatory initiatives are developed.

Towards the end of 2013 a review of the EU implementation of Basel III was initiated as part of the so-called regulatory consistency assessment programme (RCAP). The review is to assess the extent of compliance of the EU regulation with the Basel III framework as a part of the efforts of the BCBS to ensure global implementation of the Basel standards. The EU is being represented by the European Commission, given their role in the EU legislative framework, and the EBA is supporting the European Commission in the RCAP assessment, in particular as regards the more technical regulations and the quantitative assessment of the framework.

The EU implementation of the Basel III framework has predominantly been done through the CRD/CRR proposal, and the RCAP assessment includes the technical standards already submitted by the EBA, with particular emphasis on those standards that specify in more detail elements also covered by the BCBS recommendations.

The RCAP assessment includes a quantitative assessment of the EU legislation's compliance with the BCBS recommendations. For this purpose the EBA is drawing on existing data, but has also involved 20 internationally active banks, which are participating in the assessment of preliminary findings. This exercise is being coordinated by the EBA with the active participation of a number of EU countries that also are present at the BCBS table.

The RCAP process will run through 2014 and will result in an assessment of the EU implementation of the BCBS recommendations. The EBA is committed to implementing the Basel III framework, but also recognises that the framework is aimed at internationally active banks. Given that the EBA's technical standards will be binding on all banks in the EU, including smaller, non-internationally active banks, the framework may not be fully suitable for all banks in the EU as the EU legislation must be proportionate in its implementation.

2013 regulatory products

Topic	Regulatory products
Anti-money laundering	Joint Committee's report on the anti-money laundering and counter financing of terrorism risk-based supervision
Basel III monitoring exercise	Report on Basel III monitoring exercise — Results based on data as of 30 June 2012
	Report on Basel III monitoring exercise — Results based on data as of 31 December 2012
Benchmark setting	Consultation on principles for benchmark-setting processes in the EU
	Recommendations on supervisory oversight of activities related to banks' participation in the Euribor panel
	ESMA and EBA principles for benchmark-setting processes in the EU
College of supervisors	Consultation on draft ITS on joint decisions on institution-specific prudential requirements
	Final draft ITS on joint decisions on institution-specific prudential requirements
Consumer protection and financial innovation	Consultation on draft RTS on professional indemnity insurance (PII) for mortgage credit intermediaries
	ESMA and EBA consultation on complaints handling guidelines for the investment and banking sectors
	Opinion on good practices for ETF risk management
	Opinion on good practices for the treatment of borrowers in mortgage payment difficulties
	Opinion on good practices for responsible mortgage lending
	Principles of the European supervisory authorities on manufacturers' product oversight and governance processes
	Investor warning on contracts for difference
	Warning on virtual currencies
	Report on consumer trends — Supervisory concerns regarding consumer protection issues in 2012/13
Credit risk	Consultation on draft RTS in relation to credit valuation adjustment risk
	Consultation on draft RTS on the method for the identification of the geographical location of the relevant credit exposures
	EBA, EIOPA and ESMA consultation on removal of mechanistic references to credit ratings in the ESAs' guidelines and recommendations
	Final draft RTS on the calculation of credit risk adjustments
	Final draft RTS on the method for the identification of the geographical location of the relevant credit exposures
EU capital exercise	Recommendation on the preservation of capital
	Recommendations on asset quality reviews

Topic	Regulatory products
Financial conglomerates	Final joint draft RTS on the uniform conditions of application of the calculation methods for determining the amount of capital required at the level of the financial conglomerate
Large exposures	<p>Consultation on draft RTS on the determination of the overall exposure to a client or a group of connected clients in respect of transactions with underlying assets</p> <p>Final draft RTS on the determination of the overall exposure to a client or a group of connected clients in respect of transactions with underlying assets</p>
Liquidity risk	<p>Consultation on draft guidelines on retail deposits subject to different outflows for the purpose of liquidity reporting</p> <p>Consultation on draft ITS listing the currencies with an extremely narrow definition of central bank eligibility</p> <p>Consultation on draft ITS on additional liquidity monitoring metrics</p> <p>Consultation on draft ITS on currencies for which the justified demand for liquid assets exceeds their availability</p> <p>Consultation on draft RTS on additional liquidity outflows</p> <p>Consultation on draft RTS on derogations for eligible currencies</p> <p>Consultation on draft guidelines on harmonised definitions and templates for funding plans of credit institutions</p> <p>Consultation on the process to define highly liquid assets in the liquidity coverage ratio (LCR)</p> <p>Discussion paper on guidelines on retail deposits subject to different outflows for the purposes of liquidity reporting</p> <p>Final draft ITS on additional monitoring metrics for liquidity</p> <p>Final guidelines on retail deposits subject to different outflows for the purposes of liquidity reporting</p> <p>Report on appropriate uniform definitions of extremely HQLA and HQLA and on operational requirements for liquid assets</p> <p>Report on impact assessment for liquidity measures</p>
Market infrastructure	<p>Consultation on draft ITS on the hypothetical capital of a central counterparty (CCP)</p> <p>Final draft ITS on the hypothetical capital of a central counterparty (CCP)</p>
Market risk	<p>Consultation on draft RTS on the definition of market</p> <p>Consultation on draft RTS on non-delta risk of options in the standardised market risk approach</p> <p>Consultation on draft ITS on closely correlated currencies</p> <p>Consultation on draft RTS on the definition of materiality thresholds for specific risk in the trading book</p> <p>Consultation on draft ITS on appropriately diversified indices</p> <p>Consultation on draft RTS on prudent valuation</p>

Topic	Regulatory products
	Final draft RTS on the definition of market
	Final draft RTS on non-delta risk of options in the standardised market risk approach
	Final draft ITS on closely correlated currencies
	Final draft RTS on the definition of materiality threshold for specific risk in the trading book
	Final draft ITS on appropriately diversified indices
Model validation	Consultation on draft RTS on the conditions for assessing the materiality of extensions and changes of internal approaches for credit, market and operational risk
	Final draft RTS on the conditions for assessing the materiality of extensions and changes of internal approaches for credit, market and operational risk
Other topics	Consultation on draft ITS on the format, structure, contents list and annual publication date of the supervisory information to be disclosed by competent authorities
	Final draft ITS on the format, structure, contents list and annual publication date of the supervisory information to be disclosed by competent authorities
Own funds	Consultation on draft RTS on own-funds requirements for investment firms
	Consultation on draft RTS on own funds (part 3)
	Consultation on draft RTS on own funds (part 4)
	Consultation on draft technical standards and guidelines for the identification of global systemically important institutions (G-SIIs)
	Discussion paper on technical advice to the Commission on possible treatments of unrealised gains measured at fair value
	Final draft ITS on disclosure for own funds
	Final draft RTS on own funds (part 1)
	Final draft RTS on own funds (part 2)
	Final draft RTS on own funds (part 3)
	Final draft RTS on own funds gain on sale
	Technical advice to the Commission on possible treatments of unrealised gains measured at fair value
Passporting and supervision of branches	Consultation on draft RTS and ITS on passport notifications
	Consultation on draft RTS and ITS on information exchange
	Final draft RTS and ITS on passport notifications
	Final draft RTS and ITS on information exchange
Recovery and resolution	Consultation on draft RTS on the content of recovery plans
	Consultation on draft RTS on the assessment of recovery plans
	Consultation on draft RTS specifying the range of scenarios to be used in recovery plans

Topic	Regulatory products
Remuneration	Consultation on draft RTS for the definition of material risk takers for remuneration purposes
	Consultation on draft guidelines on the applicable notional discount rate for variable remuneration
	Final draft RTS on the definition of material risk takers for remuneration purposes
	Report on high earners (2010 and 2011 data)
	Report on high earners (2012 data)
Risk-weighted assets	Report on interim results of the EBA review of the consistency of risk-weighted assets in the banking book
	Report on interim results update of the EBA review of the consistency of risk-weighted assets in the banking book
	Third interim report on the consistency of risk-weighted assets — SMEs and residential mortgages
	Summary report on comparability and pro-cyclicality of the IRB approach
	Report on variability of market RWA
	Report on the pro-cyclicality of capital requirements under the IRB approach
	Report on the comparability of supervisory rules and practices
Securitisation and covered bonds	Consultation on draft RTS on close correspondence between the value of an institution's covered bonds and the value of the institution's assets relating to the institution's own credit risk
	Consultation on draft ITS and RTS on securitisation retention rules
	Consultation on draft guidelines on significant risk transfer (SRT) for securitisation transactions
	Final draft RTS on close correspondence between the value of an institution's covered bonds and the value of the institution's assets relating to the institution's own credit risk
	Final draft RTS on the retention of net economic interest and other requirements relating to exposures to transferred credit risk
	Final draft ITS relating to the convergence of supervisory practices with regard to the implementation of additional risk weights
Supervisory reporting	Consultation on the data point model related to the technical standards on supervisory reporting requirements for leverage ratio
	Consultation on the data point model related to the technical standards on supervisory reporting requirements for liquidity coverage and stable funding
	Consultation on draft implementing technical standards (ITS) on asset encumbrance reporting
	Consultation on draft implementing technical standards (ITS) on supervisory reporting on forbearance and non-performing exposures
	Consultation on the draft XBRL taxonomy for second-level supervisory reporting
	Consultation on a recommendation on the use of the legal entity identifier (LEI)

Topic	Regulatory products
	Final draft ITS on supervisory reporting requirements
	Final draft ITS on supervisory reporting on forbearance and non-performing exposures
	Final draft ITS on supervisory reporting on asset encumbrance
Supervisory review and evaluation process (SREP) and Pillar 2	Consultation on draft guidelines on capital measures for foreign currency lending Consultation on draft guidelines on technical aspects of the management of interest rate risk arising from non-trading activities (IRRBB) Discussion paper on draft guidelines on supervisory review and evaluation process (SREP) and pillar 2 Final guidelines on capital measures for FX lending to unhedged borrowers under the SREP
Transparency and Pillar 3	Consultation on draft guidelines on disclosure of encumbered and unencumbered assets Report on follow-up review of banks' transparency in their 2012 pillar 3 reports





Oversight

The EBA continued its work of strengthening supervisory convergence and cooperation in 2013, as well as ongoing work to monitor and address risks in the banking sector. Oversight delivered a number of RTS and ITS in 2013 which are fundamental to the single rulebook, notably technical standards that created a single EU regulatory reporting framework, as well as standards on information exchange, joint decisions and passporting. These were supplemented by guidelines on the EBA's first pillar 2 topic: capital measures for foreign currency (FX) lending. The EBA also continued to use the data that it collects more effectively with the first publication of the EBA risk dashboard, which presents aggregate data on the evolution of key risk indicators (KRIs) from 55 EU banks, and the first individual risk dashboards were presented to individual colleges in 2013, allowing colleges to benchmark banks against peers.

EBA oversight issued two recommendations with the intention of restoring stability in the EU banking sector, firstly on the preservation of capital and secondly on AQRs. Both recommendations are designed to maintain progress in the repair of banks' balance sheets and move towards an effective stress test in 2014. Coordination of this work through colleges of supervisors shows increased cooperation, joint work and information sharing, as well as the need to avoid duplication of work.

Additionally, with regard to the work of the EBA's colleges, there was an increase in the involvement of EBA staff in colleges, particularly in the work of the crisis management college through increased EBA attendance and participation at crisis management groups (CMGs), monitoring of adherence to the EBA's recommendations on recovery plans and the development of a report comparing and analysing recovery plans.

In keeping with the EBA's position that transparency and market discipline are important elements for improving the resilience and stability of the banking system, the EBA carried out its third transparency exercise in December 2013, which provided an unprecedented level of detailed data for the largest EU banks.

Home-host coordination

Supporting and monitoring college activities

Colleges of supervisors continue to be of huge importance in the supervision of EEA cross-border banking groups, and the EBA has the task of promoting and monitoring the efficient, effective and consistent functioning of these colleges.

The EBA's engagement with colleges is appropriate to the size and complexity of the banking groups for which they are established. The list of established colleges and the EBA's engagement with them is reviewed annually through the mapping exercise conducted in close cooperation with the NCAs, who provide the necessary data to identify the number of EEA colleges. As demonstrated in Figure 2, altogether 105 colleges were identified by the EBA in 2013, 43 of which were categorised as 'closely monitored colleges', a list which includes the largest cross-border banks with EEA headquarters and a broader presence across the internal market. For the 'closely monitored colleges' the EBA seeks to play an active role both in the college meetings and in the ongoing college activities. As regards the remaining 62 colleges, the EBA monitored and engaged with them on an ad hoc basis. These consist of 52 colleges for smaller EEA-based groups and 10 colleges for banking groups with a parent undertaking in a third country.

The EBA's engagement with colleges of supervisors in 2013 can be defined as follows.

1. Monitoring information exchange and actively participating with college members, undertaken through contributing to college activities like presenting at college meetings, adding relevant items to the agenda, attending joint on-site inspections, etc. For the 'closely monitored colleges', such participation is demonstrated in Figure 2 below. An increased level of cooperation within colleges was noted, including enhanced involvement of college members in in-depth risk discussions, and many colleges have moved from one physical meeting per year to more frequent interaction and information exchange.
2. Ensuring adherence to relevant regulations and guidelines and the annual EBA action plan. In 2013 the focus was on the quality of the joint risk assessment and decision process, where improvements in interaction, discussion and articulation were noted, and also on their adherence to the 2013 EBA recommendations on recovery plans, AQRs and capital preservation.

Supervisory cooperation in crisis management

In 2013 the EBA expanded its activities in CMGs, attending almost all meetings for the major EU banking groups, as well as a few cross-border stability groups (CBSGs). In the build-up to the directive establishing a framework for the recovery and resolution of credit institutions and investment firms (the BRRD), the EBA sought to highlight the expanding role of colleges of supervisors in the area of crisis management. In particular, following the publication of the EBA recommendation addressed to NCAs that required 39 EU cross-border banks to submit recovery plans to these authorities by the end of 2013, which would subsequently need to be discussed in colleges of supervisors, the EBA endeavoured to give guidance to competent authorities on both the key topics for the assessment of group-wide recovery plans and the development of crisis management procedures in general.

In the CMGs for global systematically important financial institutions (G-SIFIs), the EBA started to contribute to the discussion

Figure 2: Number of colleges identified by the EBA in 2013

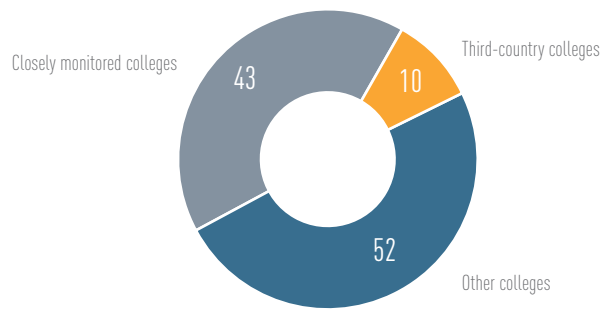
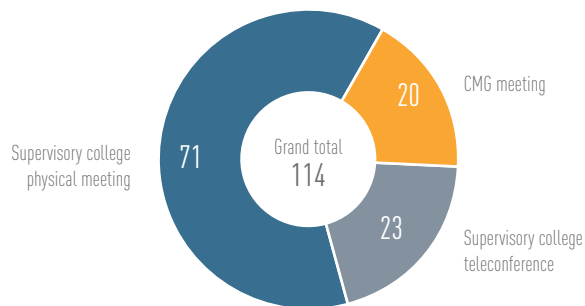


Figure 3: Number of colleges and CMG meetings attended by EBA staff



The EBA's comparison and analysis of recovery plans

To aid the discussions on the review and assessment of recovery plans, the EBA compared and analysed recovery plans of 10 major EU cross border banking groups focusing on four key themes; governance, indicators, scenarios and recovery options. The findings were communicated to competent authorities to assist them in the review of individual plans. In early 2014, the exercise will be expanded to 20 EU cross border banking groups, headquartered in 8 Member States and which have aggregate assets in the region of EUR 19 trillion.

on resolution strategies and plans, while encouraging competent authorities to complete the so-called institution-specific cooperation agreements, as required by the FSB. Resolution strategies and plans, as well as resolvability assessments, will be an area of increasing attention over the coming year.

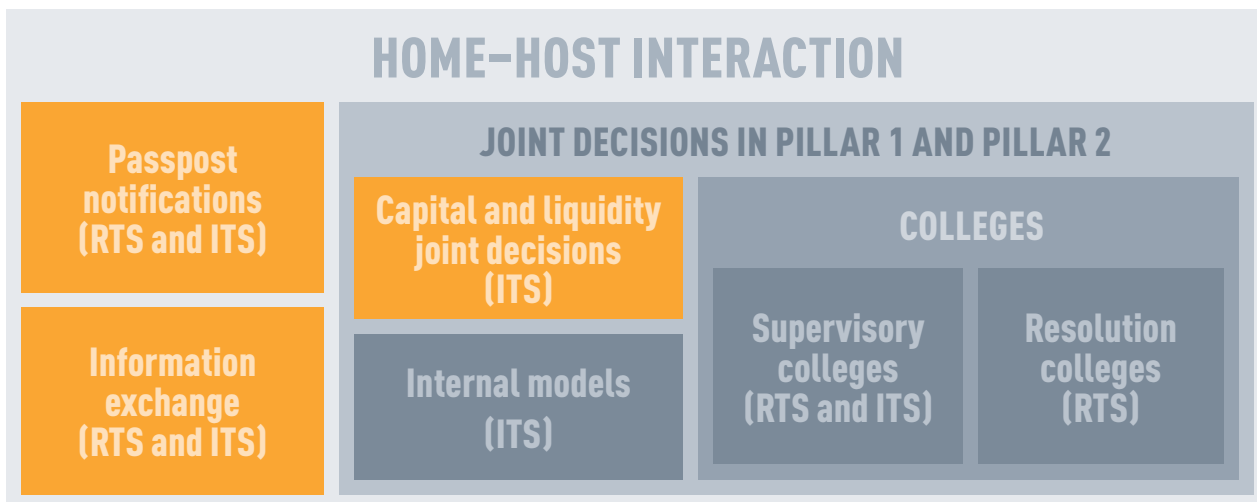
To assist colleges of supervisors in developing robust crisis management procedures, EBA staff developed a template for emergency plans based on the analysis of the emergency plans of closely monitored colleges. This template, which is in line with Article 112(1)(c) of Directive 2013/36/EU (CRD IV), is an addition to, and complements, the existing 'Template for a multilateral cooperation and coordination agreement on the supervision of XY Group'. It provides planning and coordination procedures for the actions to be taken by a college of supervisors in the event of an emergency.

Single rulebook for supervisory cooperation

In 2013 the EBA finalised and delivered to the European Commission five draft technical standards in the area of home–host cooperation and supervision of cross-border banking groups. These technical standards contribute to the single rulebook for supervisory cooperation, aiming to increase cooperation and convergence of practices across colleges. In particular, the following final draft BTS were delivered.

- (i) Final draft RTS and ITS on passport notifications, setting up provisions and elaborating on the level 1 text requirements concerning credit institutions that wish to provide their services across borders, through the establishment of a branch or the exercising of the freedom to provide services. These technical standards also cover home–host interaction on the basis of responsibilities and tasks assigned to the competent authorities in the level 1 text.
- (ii) Final draft RTS and ITS on information exchange, covering collaboration requirements for the supervision of institutions operating, through the establishment of a branch or free provision of services, in one or more Member States other than the one in which they have their head office. These technical standards set out the information to be exchanged and the process of interaction and cooperation between home and host authorities.
- (iii) Final draft ITS on joint decisions on institution-specific prudential requirements elaborating both on the process for reaching joint decisions and elements of fully reasoned capital and liquidity joint decisions, and on templates for communicating the outcome of the SREP performed by each competent authority participating in the joint decision process. Colleges have been collaborating to reach joint decisions

Figure 4: BTS in the CRD and the CRR relating to home–host interaction



Yellow boxes indicate draft binding technical standards which have been already delivered to the European Commission (Passport notifications, information exchange, capital and liquidity joint decisions). Grey boxes indicate binding technical standards that are still being drafted.

on capital since 2011, however CRD IV introduces the requirement for colleges to reach a joint decision on liquidity in 2014 for the first time.

Furthermore the development of the EU's SREP framework by the end of 2014 (see below) will increase consistency of national supervisory outcomes that will inform the joint work on capital and liquidity under pillar 2.

Supervisory convergence across the EU

The year 2013 was an important one for the EBA in shaping key principles for the forthcoming common EU framework for the SREP and for delivering a number of key papers in this respect.

The Board of Supervisors reached agreement on the key elements of the SREP, which will be incorporated into forthcoming guidelines for common procedures and methodologies for the SREP being developed by the EBA in accordance with Article 107(3) of the CRD. Following this agreement, the purpose of the future common SREP will be to assess an institution's viability through the assessment of four key elements:

- the viability and sustainability of its business model in the current and changing business environment;
- the suitability of its governance and institution-wide controls to manage and control risks given its size and complexity;
- the risks to capital (credit, market, operational, concentration, etc.) to which it is exposed after considering the controls it has in place and the adequacy of capital resources to mitigate these risks;
- the risks to liquidity to which it is exposed after considering the controls it has in place and the adequacy of its liquidity resources to mitigate these risks.

The EBA also published a discussion paper on the methodology for the assessment of liquidity and funding risks, which is a preliminary version of the methodology to be incorporated later into the guidelines for common SREP procedures and methodologies. The aim of this discussion paper is to help supervisory

authorities and colleges of supervisors in assessing liquidity and funding risks and reaching the joint decision on liquidity required by the CRD as of 2014.

Additionally, the EBA published the guidelines on capital measures for FX lending to unhedged borrowers under the SREP, which were developed in line with the mandate from the ESRB. Competent authorities are asked to comply in 2014, although these guidelines are subject to review in order to allow their inclusion in the guidelines for common procedures and methodologies for SREP.

In order to enhance the consistency and quality of joint decisions, EBA staff have developed a standard template for joint decisions on capital which is available for consolidating supervisors to use.

Risk analysis

The risk analysis team has been working to develop a data infrastructure to accommodate regulatory reporting data, as well as other information that will enable the EBA to discharge its responsibilities. In particular, such data will aid in the provision of risk reports and ad hoc analyses to the Board of Supervisors, the ESRB, the Parliament, the Council and the Commission, according to the EBA's regulation.

The EBA is uniquely placed to look at banks across the entire Union from a micro-prudential perspective, and we detail in the following sections the data collection and the information produced.

Additionally, the work undertaken by the risk analysis team contributed to the EBA's role in restoring confidence in the banking system through its work on the capital preservation recommendation, RWA consistency and the transparency exercise.

Regular risk analysis products

The risk assessment report (RAR) is produced twice a year and contains the EBA's assessment of the risks and vulnerabilities of the EU's banking system. It is a public report to discharge our responsibility to highlight the risks to the Parliament, the Council, the Com-

mission and the ESRB, and it is available on the EBA website. The report draws on the views of banks and national supervisors to construct a forward-looking view of risks that are of concern to regulators and policymakers. For input into this report, the EBA sent out risk assessment questionnaires to banks and/or their supervisors, as well as market analysts.

In a similar context, the EBA contributes to the semi-annual cross-sectoral report on risks and vulnerabilities of the EU financial system that is produced by the Joint Committee of the European Supervisory Authorities (EBA, ESMA and EIOPA) and tabled at meetings of the Economic and Financial Committee's Financial Stability Table, and the report is published on the ESAs' websites.

The weekly overview of liquidity and funding (WOLF) is a weekly newsletter which continued to be published through 2013, containing summaries of pertinent research and analysis. Uniquely, it also provides summaries of supervisory calls between the EBA and NSAs discussing conditions in their jurisdictions. As a result, the circulation of this report is restricted to the EBA Board of Supervisors.

In 2013 the market thermometer continued to be produced as a weekly newsletter for EBA staff and selected competent authorities' personnel, providing up-to-date public data from market movements and indicators for selected banks, allowing colleagues to remain informed of recent developments in market indices and large banks.

Risk analysis reports

The EBA started publishing its risk dashboard report in autumn 2013, with its first release covering data from the second quarter of 2013. The risk dashboard was used internally during 2012 and 2013 to provide an overview of the main risks and vulnerabilities in the banking sector of the EU, and from October 2013 it was also used publicly in an aggregate form. The dashboard is published every quarter and it looks at the evolution of KRIs from 55 banks across the EU that the EBA has been collecting on a quarterly basis since 2009.

The quarterly report includes a colour-code system, which facilitates the identification of major sources of risks and trends in banks' risk profiles, and a graphical overview of aggregated KRI trends. With the publishing of the report an interactive tool has also been added for ease of analysis and transparency.

The EBA has also produced a firm-specific dashboard that entered its operational phase in 2013 and is now in use, with particular application to colleges, providing well-defined indicators on a harmonised basis for a specific firm, as well as for its peer group in the Union, facilitating the use of EU-wide supervisory information where it can be most valuable.



Figure 5: Risk analysis dashboard

	Bank risk	Risk drivers	Level of risk	Forward trend	Contributing factors/interactions	
CAPITAL	PILLAR 1	Credit risk	Asset quality	■	→	Asset quality deterioration is still a major challenge, also in light of uneven economic recovery in the EU. Calculation of banks' risk weighted assets remains a shadow over seemingly healthy capital ratios. Upcoming review of assets should boost clarity on problem loans and level of impairments/provisions.
		Market risk	Hightened volatility, hedge effectiveness	■	→	Geopolitical tensions have been eased (e.g. US budget, Middle East), though some degree of uncertainty exists and banks may be susceptible to adverse developments in some emerging markets. Some hightened market volatility could be observed as well. Diverse and adjusting monetary policy stances by central banks over the world may impact EU banks activity.
		Operational risk	Cost cutting	■	↑	Cost cutting efforts can jeopardise internal controls efficiency or expose specific areas of activity. Risks of fraud in a downturn environment persist and IT plus Internet-related risks (e.g. cyber-risks) are growing whilst redress costs increase.
	PILLAR 2	Concentration risk, IRRBB and other	Interest rates	■	→	Low interest rates help maintain asset quality and improve affordability of bank credit, but affects profitability by reduced interest income. Low interest rates also provide incentives for loan forbearance.
		Reputational and legal	LIBOR/Euribor investigations, mis-selling	■	↑	Confidence in banks is affected due to shortcomings in some past business practices. There are also exogenous pressures from the possibility of a bail-in of non-insured deposits. Fines/redress costs can also affect profitability.
		Profitability	Margins, asset quality, provisions workout, business model changes	■	→	A weak macroeconomic environment leads to rising non-performing loans and to reduced new lending and interest income generation opportunities. Interest margins are low, cost cutting efforts and results are difficult to materialise, and legal and redress costs are rising.
LIQUIDITY & FUNDING	Access to funding and maturity distribution	Market confidence, pricing	■	↓	The stock of funding still relies heavily on public funding but an increasing number of banks is returning to the market. Ring-fencing can be observed and reliance on deposit is increasing. Unsecured funding markets continue to improve and average maturity profile in 'peripheral' countries seems to be recovering.	
	Funding structure	Geographical fragmentation of funding markets, leverage	■	→	Business model changes, macro-economic condition, some continued fragmentation and retrenchment to home markets, ongoing de-risking, some shrinking of balance sheet and of loan book (see also fragmentation).	
ENVIRONMENT	Regulatory environment	Timing and scope of implementing regulatory initiatives	■	→	While more regulatory clarity has been achieved, significant implementation challenges nevertheless remain ahead, also in ensuring a convergent application of the new rules, e.g. on 'bail in'. The Basel Committee's decision on the definition of the leverage ratio brought light to an important topic.	
	Fragmentation	Continued lack of confidence, sovereign/bank link, national-only regulatory/policy initiatives	■	→	For some banks, home bias and requirements to match assets and liabilities at country level are being maintained; cross-border interbank markets are subdued. Rates for comparable companies divergent in different countries. Reduced cross-border lending and external bank funding. Despite some improvements, geographical fragmentation of funding conditions continues and dispersed funding condition between large cross-border banks and smaller banks in 'peripheral' countries continues (see also funding structure).	
	Sovereign risk	Fiscal policy and effectiveness, budgets imbalances	■	↓	Recent developments in sovereign spreads lead to increased confidence and concerned sovereigns benefited from falling yields, although risks of re-alignments remain. Links between banks and sovereign persist but seem to be less pronounced. In the balance sheet assessment for the SSM <i>ex ante</i> agreed backstops need to be in place.	

LEVEL

- High
- Medium
- Low

TREND

- ↑ Increasing
- Stable
- ↓ Decreasing

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

Strengthening capital

In July 2013 the EBA issued the recommendation on the preservation of core tier 1 (CT1) capital during the transition to the CRD/CRR framework, that replaces the EBA December 2011 Recommendation on the creation and supervisory oversight of temporary capital buffers to restore market confidence. According to the recommendation, which is addressed to NCAs, banks in the sample are asked to maintain a nominal amount of CT1 capital (EBA definition of CT1 capital) above a nominal floor that corresponds to the amount of capital that was needed to comply with the EBA's December 2011 recommendation, that is, 9 % of the June 2012 RWA figure plus the sovereign capital buffer. The December 2011 recommendation led to an improvement in capital positions of EUR 115.7 billion in aggregate terms. If we are to consider the recapitalisation of banks in programme countries, the injection of capital into the EU's banking system was over EUR 200 billion between December 2011 and June 2012.

To monitor the fulfilment of the recommendation, banks were asked to submit to their competent authority a template for the monitoring of the nominal floor recommendation and their capital plan for the transition to the CRD IV/CRR full implementation, together with the monitoring template that includes the main figures of

the plan. All this information was shared and discussed by colleges of supervisors. For those cases where a waiver was requested, waivers were discussed not only by the college of supervisors but also by the EBA Management Board, in order to provide feedback to the NCA prior to the final granting of the waiver.

Compliance with the nominal floor recommendation and the ongoing compliance of the waiver requests, in those cases where a waiver was requested, will be monitored on an ongoing basis by NCAs. The templates for this monitoring will be resubmitted on a semi-annual basis to the EBA and to relevant colleges of supervisors.

Additionally, banks will be asked to provide an updated version of their capital plans on an annual basis. Monitoring templates for the transition to the new regulatory regime of full implementation and capital plans will be shared and discussed with the EBA and colleges of supervisors, when relevant.

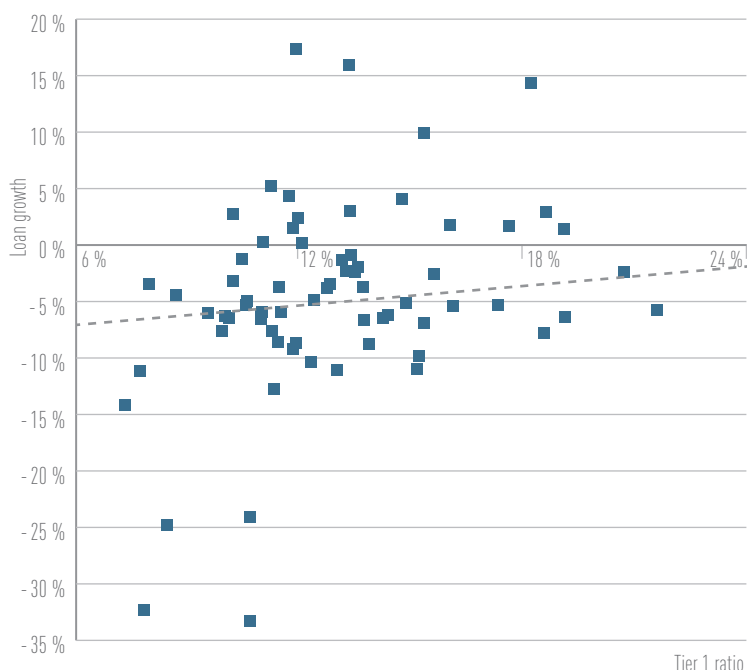
This recommendation ensures that there is enough capital in the system to withstand volatility and stress and to ensure a smooth transition to the new, stricter requirements under the CRD/CRR.

Promoting transparency

As part of its commitment to foster transparency and promote market discipline, the EBA monitored banks' implementation of pillar 3 disclosures, identified best practices and recommended the adoption of corrective actions. The EBA also continued to provide market participants with consistent and comparable data on banks' risk exposures and risks, as it believes transparency is essential in order to combat uncertainty in financial markets and restore confidence in banks (please also refer to next section).

Firstly, the EBA has conducted its annual assessment of the pillar 3 disclosures of a sample of EU banks, as it has been doing since 2008. This assessment focused on the disclosure requirements for which needs for improvements in terms of compliance with the current disclosure requirements in Directive 2006/48/EC had been identified during last year's exercise. It therefore covered disclosures related to scope of application, own funds, credit exposures under the IRB approach, securitisation activities, market risk and remuneration. Special attention was also

Figure 6: CT1 ratios v loan growth



given in this issue to regulatory disclosures provided in interim periods.

The assessment noted that there had been some improvements in the quality of disclosures, but not necessarily in the compliance of those disclosures with applicable disclosure requirements, which remains generally unchanged compared to last year. In addition, in the absence of common disclosure formats and definitions, the consistency and comparability of disclosures between institutions and across jurisdictions remain challenging, potentially impairing market discipline.

To help institutions improve all these aspects, the EBA has identified examples of best practices that credit institutions are encouraged to follow. These best practices and findings were presented to stakeholders during a dedicated event in December and were well received.

Secondly, the EBA promoted enhancement of the disclosure and transparency of RWA-related information in the different reports on RWA consistency and the IRB approach for credit risk it issued throughout 2013 (see below). This is because the EBA believes that better disclosure could help to address the concerns regarding reliability of RWAs that have appeared over recent years. The EBA's analyses have found that a large number of differences could be easily explained by a small number of identified drivers.

Thirdly, the EBA — in connection with the decision to postpone the 2013 EU-wide stress test — conducted a disclosure exercise in December 2013 in order to address residual uncertainty on EU banks' exposures, after the significant progress made on the capital side.

In this disclosure exercise, the EBA made publicly available, in unprecedented detail, updated information on 64 European banks from 21 countries in the European Economic Area (EEA). The data covered the first half of 2013 and consisted of approximately 730 000 data points (approximately 11 000 data points for each bank), including a detailed update on composition of capital, RWAs by risk type, sovereign exposures (both direct and indirect) broken down by maturity and country, credit risk exposures (both defaulted and non-defaulted) and RWAs broken down by asset class and country of the counterparty, and also loan to value (LTV) per portfolio, value adjustments and provisions, market risk and securitisation exposures.

Transparency relates to information that institutions make public in accordance with their own communication policy, responding to market incentives, accounting or regulatory requirements. Transparency supports financial stability as it helps to properly understand the risk profiles of the different credit institutions and is an essential tool for market discipline. The EBA has an important role to play in ensuring adequate transparency and increasing the comparability and consistency of disclosures.

Significant progress has also been made in disclosing the data in a more user-friendly way for ease of analysis. Therefore, not only has all data been made available online in an editable and user-friendly readable format, but also it is accompanied by visual tools which further enhance the data analysis possibilities.

Restoring confidence

The EBA finalised, in October 2013, draft ITS containing definitions of non-performing exposures and debt forbearance. These standards ensure EU-wide consistency and clarity and have been strongly welcomed by market participants who consider this a crucial part of the credibility of the AQR process.

At the same time, the EBA published recommendations on AQRs, requiring participating competent authorities to undertake AQRs of asset classes considered to be high risk, and to use the EBA definitions for non-performing exposures and forbearance. These recommendations promote consistency in the process and outcomes of AQRs at the EU level so that remaining doubts about the quality of assets across the EU may be alleviated.

The recommendations were designed to work with existing and/or planned work on AQRs, and in particular to support the work of the SSM and its plans for a balance sheet assessment.

Colleges have played a crucial role in the initiative to restore confidence in the EU banking sector. Since mid 2013, in anticipation of the publication of an EBA recommendation on AQRs, the EBA has been working closely with colleges to ensure information sharing and planning for possible joint work.

Financial pricing benchmarks

In another strand of work, the EBA, in close cooperation with ESMA, has been working to enhance cooperation between competent authorities on investigation and enforcement regarding Euribor panel banks. The EBA issued recommendations in 2013 identifying harmonised supervisory practices for the oversight of the Euribor submission process. Harmonised supervisory oversight of all panel banks will increase the reliability of Euribor by setting standards for supervision of submission processes. The recommendations focus on requests to strengthen Euribor panel banks' internal governance arrangements, including a code of conduct with emphasis on identifying and managing internal conflicts, internal control arrangements (including audits), record keeping and comparison with actual transactions. To ensure a representative panel, it is recommended that competent authorities encourage all banks active in euro money markets to participate in the Euribor panel. In addition to the recommendations, the EBA and ESMA provided feedback to Euribor-EBF, as benchmark administrator of Euribor, based on the findings of the joint review that EBA and ESMA conducted in order to fully understand the Euribor rate-setting process and its susceptibility to the risk of manipulation.

Building infrastructure

During 2013 the EBA worked on and, after public consultation, finalised draft ITS on regulatory reporting that were sent to the Commission for enactment.

The standards set out reporting requirements related to own-funds requirements (currently under the COREP guidelines), financial information (currently under the Finrep guidelines), losses stemming from lending collateralised by immovable property, large exposures (currently under the COREP large exposures guidelines), leverage ratios and liquidity ratios.

Further standards, which include additional elements related to asset encumbrance, were finalised in 2013 and published on the EBA website.

These ITS will be part of the single rulebook aimed at enhancing regulatory harmonisation in the banking sector in the EU and facilitating the proper functioning of cross-border supervision.

Uniform reporting requirements are necessary to ensure fair conditions of competition between comparable groups of credit institutions and investment firms. In this respect, these ITS on reporting requirements will lead to greater efficiency for institutions, but also to greater convergence of supervisory practices across Member States, allowing supervisors to identify and assess risks consistently across the EU and to compare EU banks in an effective manner.

Prior to the finalisation of the standards, significant work was conducted to provide precise definitions compliant with the CRD IV legislation. These definitions were then formally modelled in a data point model and a set of validation formulae that will support a data dictionary and an XBRL typology to enable a robust automated infrastructure to be developed for banks and regulators.

Work has also started on addressing questions from stakeholders on the interpretation and implementation of the requirements included in the ITS, using the Q & A tool available on the EBA website.

In order to complete this work, the EBA has been planning, preparing and upgrading its data infrastructure through launching a project to collect test data from competent authorities on a voluntary basis, and has used this flow to test and validate the data infrastructure that operates on the EBA's own SAS server-based platform. This solid foundation provides for robust governance rules for data sharing within and outside the organisation and also allows exploration of the dataset held, such as the Finrep (financial information, such as balance sheet) and COREP (capital adequacy and liquidity information) suites of reports that will go live in 2014.

In December 2013 the EBA published a consultation paper on harmonised templates and definitions for funding plans. This was the culmination of work carried out during 2013 in response to ESRB recommendation 2012/02 on the funding of credit institutions, and in particular the recommendation that the EBA develop harmonised templates and definitions for the reporting of funding plans by credit institutions to national authorities. This harmonisation will allow a common language of funding plans for discussion in colleges and, importantly, will allow assessment of the feasibility, consistency and coherence of funding plans at national and Union level.

Consumer protection and financial Innovation

In Article 9 of its regulation, the EBA is tasked with promoting the transparency, simplicity and fairness of the market for consumer financial products or services across the internal market, and with monitoring new and existing financial activities with a view to promoting the safety and soundness of markets and the convergence of regulatory practice. Accordingly, the EBA's work is separated into protecting consumers on the one hand and monitoring financial innovation on the other.

Protecting consumers

The EBA's consumer protection remit extends to mortgages, personal loans, credit/debit cards, savings products, current accounts and payment services. Of these products, the EBA's work focused on mortgages. In June an EBA opinion was published on good practices for responsible mortgage lending, including provisions relating to the verification of information provided by the mortgage applicant, reasonable debt service coverage, appropriate loan-to-value ratios, and lending and supervisory processes. An opinion was also published on good practices for the treatment of borrowers in mortgage payment difficulties, covering general principles, policies and procedures, provision of information and assistance to the borrower and resolution processes.

Furthermore, the mortgage credit directive (MCD) introduced requirements relating to the professionalism and admission of mortgage credit intermediaries. To that end, the EBA fulfilled the first consumer protection mandate it had received from the EU institutions, which was provided for in Article 29 of the MCD. To that end the EBA published a consultation paper on a draft RTS on the minimum monetary amount of professional indemnity insurance or comparable guarantees for mortgage credit intermediaries. Professional indemnity insurance is liability insurance aimed at covering, either entirely or in part, sums to be paid by professionals to third parties as compensation for losses arising from acts committed by the professional during the conduct of their business activities. The minimum cover proposed, of EUR 460 000 per claim and EUR 750 000 per year, will provide greater confidence to



consumers that a potential and valid compensation claim they may have for mis-selling, maladministration and/or fraud is more likely to be met. The EBA envisages production of a feedback statement and transmission of the final draft RTS to the European Commission in June 2014.

The EBA published its annual consumer trends report, which identifies key issues in the area of consumer protection and highlights the new trends and the key areas for concern in 2013. The report focuses on a revised set of issues, trends and products for 2013 following a survey conducted with the 28 national authorities. The report identified some major consumer issues that the EBA shall start addressing in 2014:

- transparency and levels of charges;
- scope of mis-selling of financial products resulting from a combination of pressures on institutions and the continuing challenges for consumers in understanding the suitability of products for them;
- specific issues concerning certain products, notably foreign currency loans, payment protection insurance and complex products;
- security of new technologies used for banking services;
- emerging new forms of liquidity raising, such as crowdfunding.

In the framework of the Joint Committee of the European Supervisory Authorities, and as outlined in more detail further on in this report, the EBA published, jointly with ESMA, a consultation paper on guidelines for complaints handling for the securities and banking sectors. The EBA and ESMA proposed to build upon the existing EIOPA guidelines for the insurance sector. The objective is to provide EU consumers with a single set of complaints-handling arrangements, irrespective of the type of product or service and of the geographical location of the firm in question. This will also allow firms to streamline and standardise their complaints-handling arrangements and national regulators to supervise the same requirements across all sectors of financial services. The proposed guidelines contain provisions requiring firms to have a complaints management policy in place, to set up a complaints management function, to register complaints, to report complaints to ombudsmen, to analyse and follow up on complaints, to provide information to complainants and to respond to complainants. A feedback statement and the final guidelines are envisaged for April 2014.

Finally, the EBA, ESMA and EIOPA also published a joint position on product oversight and governance processes. The joint position consists of eight principles applicable to manufacturers in setting up processes, functions and strategies for designing and marketing financial products, as well as reviewing the products' life cycles. The joint position is not directly addressed at market participants and competent authorities but will provide a high-level, consistent basis for the subsequent development of more detailed principles addressed at manufacturers by each of the ESAs in their respective sectors.

Monitoring financial innovation

In March the EBA issued an opinion addressed to NSAs on good practices for the risk management of exchange-traded funds (ETFs). ETFs are securities that track a commodity, an index or a basket of assets like an index fund, but trade like a stock on an exchange and therefore experience price changes throughout the day. The good practices attempt to ensure that potential risks associated with ETFs are managed adequately from the perspective

of the credit institution — and indirectly from the perspective of its customers.

In the same month the EBA also published, jointly with ESMA, a warning to retail investors about the dangers of investing in contracts for difference (CFDs). The two authorities were concerned that, during the current period of low investment returns, inexperienced retail investors across the EU are being tempted to invest in complex financial products which they may not fully understand and which can end up costing them money they cannot afford to lose.

In December the EBA issued a warning on a series of risks deriving from buying, holding or trading virtual currencies such as bitcoins. The warning made consumers aware that, unlike using traditional payment systems, they are not protected through regulation when using virtual currencies as a means of payment and may be at risk of losing their money. There is also no guarantee that currency values will remain stable. The warning was issued while the EBA investigated further all relevant aspects associated with virtual currencies in order to assess whether virtual currencies can and should be regulated and supervised.

Miscellaneous activities

The EBA responded to two consultation papers, to the European Parliament on enhancing the coherence of EU financial services legislation and to the European Commission on exploring the added value of potential EU action on crowdfunding.

Jointly with EIOPA and ESMA, the EBA also co-organised the first Joint Consumer Day of the ESAs, which was held in Paris in June [1]. The aim of the event was to provide a forum for exchanges and discussions on important and current cross-sectoral consumer issues. It attracted around 250 consumer representatives, academics, legal and financial consultants, national supervisors and experts from the EU institutions and the financial services industry.

[1] See <http://www.eba.europa.eu/-/joint-committee-of-esas-holds-its-first-consumer-protection-day>

Policy analysis and coordination

A separate horizontal unit, Policy Analysis and Coordination, has been entrusted with conducting the following tasks:

- conducting internal legal analysis of the EBA's policy, regulatory and supervisory oversight products;
- provision of support and quality assurance on impact assessment of the EBA's products
- supporting the EBA's Review Panel and its peer reviews of activities of NCAs, and the EBA's BSG;
- internal and external coordination of the EBA's policy, regulatory and supervisory oversight work between the EU institutions, including the European Parliament (and its ECON Committee), the Council of the European Union (and its EFC and FSC) and the European Commission, other external bodies, such as the BCBS and the IMF, and other members of the European System of Financial Supervision (ESMA, EIOPA, ESRB), as well as between the EBA's departments/units;
- coordination of the sectoral and cross-sectoral supervisory training activities offered to NCAs;
- supporting the Joint Committee of the ESAs, and providing operational and secretarial support to the Joint Board of Appeal of the ESAs;
- supporting and coordinating other cross-sectoral and horizontal tasks and projects, e.g. the review of the European System of Financial Supervision under Article 81 of the ESA's regulations, crisis performance audits by the European Court of Auditors and the EBA assessment programme of the IMF.

Impact assessment support

Besides the legal work, the EBA's coordination activities have included the provision of guidance and support on impact assessment methodology. The aim was to ensure that the

EBA's policy decisions are informed by high-quality data analysis, objective reasoning, rationale and evidence, and that the impact assessment in the preparation of the EBA's policy, regulatory and supervisory oversight products, which includes cost-benefit analysis, is duly performed.

In the context of impact assessment support, further quality assurance is provided by the ESAs' Impact Assessment Network, which comprises impact assessment experts from the NSAs, ESAs and other EU entities relating to the financial sector.

Also, the EBA has supported the coordination of the Impact Study Group (ISG), a joint ESCB/EBA group, which is responsible for conducting and presenting a voluntary QIS on the implementation of Basel III/CRR-CRD IV by around 170 EU banks from 18 Member States.

Legal assurance and analysis of the EBA's regulatory work

In the context of the EBA's policy analysis and coordination activities, the EBA has established processes of internal legal analysis and quality control of EBA policy, regulatory and supervisory oversight products (including technical standards, guidelines, opinions, supervisory recommendations, dispute resolution, peer reviews, etc.). This has been carried out in two ways: first, by providing legal support and advice surrounding the legal mandates and legislative drafting; and second, by providing guidance on impact assessment methodology applied in the preparation of these products.

Figure 7: List of EBA products for which legal support was provided by the Policy Analysis and Coordination Unit

Consultation papers	48
Discussion papers	4
Draft implementing technical standards	21
Draft regulatory technical standards	36
Guidelines	2
Opinions, responses to calls for advice	6
Recommendations	4

The EBA's legal work has included the provision of legal support and advice on mandates, as well as on procedures, drafting and consultation matters regarding the development of technical standards, guidelines and recommendations; the provision of legal advice on an ad hoc basis, in relation to other supervisory actions and legal issues arising within the activities of the EBA; and the development of processes and internal rules of procedure for other areas of the EBA regulation, such as in relation to possible EBA investigations into breaches of EU law and cases of EBA binding and non-binding mediation.

Peer review of national competent authorities

Another key aspect of the EBA's work relates to peer reviews of NCAs, which the EBA views as important in order to further strengthen consistency in supervisory outcomes; as set out in Article 30 of the EBA regulation. These peer reviews address the adequacy of competent authorities' resources, their governance arrangements, the degree of convergence in the application of EU laws and supervisory practices, as well as the identification of possible best practices. The peer review work is carried out by the EBA's Review Panel using a peer-review methodology agreed by the EBA's Board of Supervisors in June 2012.

In 2013 all NCAs underwent a peer review in relation to their adherence to specific aspects of the EBA's guidelines on stress testing (GL32) ⁽²⁾. The peer review consisted of a self-assessment undertaken by competent authorities, followed up by the review by peers. The EBA further conducted six on-site visits to NCAs based on the outcomes of the desk-based peer review of GL32 to supplement its final assessment. The final report, listing all findings from the peer review and from the on-site visits, was published on 12 November 2013 ⁽³⁾. The finding of the peer review sug-

gested that both centralised resources and dispersed models have benefits: NCAs often focus on the (few) largest banks in their jurisdictions; the incorporation of stress testing into the SREP and the joint decision process is handled differently across NCAs; many of the NCAs where an on-site visit was conducted did a substantial amount of work on top-down stress testing; and very few NCAs require reverse stress testing. Given the developments in this rapidly changing field, the EBA recommended a review of the guidelines themselves.

Furthermore, the EBA Board of Supervisors has agreed to conduct a review of EBA guidelines on concentration risk (GL31) ⁽⁴⁾. This peer review started at the end of 2013 and is expected to be finished by mid 2014.

Involvement of stakeholders in the EBA's work

Consultation with stakeholders in areas relevant to the tasks of the EBA is being facilitated and is taking place through the BSG. In particular, the group is consulted on actions concerning RTS and ITS, guidelines and recommendations, to the extent that these do not concern individual financial institutions. The group may also submit opinions and advice on any issue related to the tasks of the EBA, with a particular focus on common supervisory culture, peer reviews of competent authorities and assessment of market developments. The BSG may also submit a request to the EBA, as appropriate, to investigate the alleged breach or non-application of Union law.

The BSG provides key inputs into the EBA work and is considered of major importance. The BSG has provided its input through responding to the EBA's public consultations, as well as through its informal feedback and contributions to the EBA's work on technical standards and guidelines. In 2013 the BSG provided opinions on 11 consultation papers, in relation to, among others: the data point model regarding supervisory reporting requirements for the LCR-NSFR and the leverage ratio; conditions for assessing the materiality of extensions and changes to internal approaches when calculating own-funds requirements for credit,

⁽²⁾ http://www.eba.europa.eu/documents/10180/16094/ST_Guidelines.pdf

⁽³⁾ For findings of the peer review and the on-site visits, please refer to 'Report on the peer review of the EBA stress testing guidelines (GL32)' [<http://www.eba.europa.eu/documents/10180/482428/EBA+2013+Report+%28Report+on+the+Peer+Review+of+the+Stress+Testing+Guidelines+%29.pdf/2dfa9d40-a2a7-4006-9c49-f883a4aa49cc>].

⁽⁴⁾ <http://www.eba.europa.eu/documents/10180/16094/Concentration.pdf>

market and operational risk; supervisory reporting on forbearance and non-performing exposures; own funds; additional liquidity monitoring metrics; the definition of material risk takers for remuneration purposes; and currencies with constrained availability of liquid assets. In addition the BSG advised on three discussion papers on prudent valuation, the definition of liquid assets in the LCR and retail deposits subject to higher outflows for the purposes of liquidity reporting. Furthermore, the BSG provided informal input into the EBA's preliminary thinking regarding the BRRD: the bail-in tool design and interplay.

In the consumer protection area, the BSG also provided contributions to the EBA's report on consumer trends 2012/13 and the EBA's opinion addressed to NCAs on good practices for the risk management of ETFs. Furthermore, with respect to product oversight, the BSG contributed to the joint position of the ESAs on manufacturers' product oversight and governance processes. The BSG's advice was also sought on a data template relating to structured products.

Given that the term of office of the initially selected BSG members expired in September 2013 ⁽⁵⁾, a call for expressions of interest was launched in May 2013 in order to prepare for its renewal. The EBA carried out a selection process ensuring an adequate balance between EU Member States and represented entities, and with regard to the gender of members. Of the 30 members of the BSG, 10 are delegates from credit and investment institutions, three of whom represent savings or cooperative banks, 10 are representatives of consumers and users, six are academics, two represent SMEs and two are employees' representatives. The EBA announced the new composition of the BSG on 18 October 2013 ⁽⁶⁾.

⁽⁵⁾ The initial composition of the BSG was appointed on 12 March 2011, as the EBA Regulation states in Article 37 (4) that members shall serve on the BSG for a period of 2½ years, the term of office expired on 11 September 2013. In order to enable the BSG to carry out its tasks for the time between the official expiration of the initial BSG's terms of office until the official appointment of new BSG members, old BSG members acted as 'caretaker' BSG for this period of time.

⁽⁶⁾ See <http://www.eba.europa.eu/-/eba-appoints-new-stakeholder-group>



◀ Mr David Llewellyn
Chairperson BSG

The BSG re-elected Mr David Llewellyn as its chairperson. The election took place during the first meeting of the newly appointed EBA's BSG on 30 October 2013. David Llewellyn, Professor of Money and Banking at Loughborough University, UK, had served as chairperson of the BSG in its former configuration until the expiry of its mandate in September 2013. The BSG group also elected Mr Andrea Resti as its vice-chairperson. Andrea Resti is Professor of Banking and Finance at Bocconi University in Milan, Italy, and previously served on the BSG as coordinator of its technical working group on bank liquidity.

With the aim of streamlining the functioning of the BSG, the newly composed BSG established three standing technical working groups, namely the Capital and Risk Analysis Group, the Recovery, Resolution and Systemic Issues Group and the Consumer Issues and Financial Innovation Group. In 2013 the BSG held five regular meetings and two joint meetings with the EBA's Board of Supervisors. Also, some BSG members were actively involved in other activities of the EBA, e.g. as speakers at the Joint ESA Consumer Protection Day in June 2013, as contributors at the EBA's workshop on proportionality measures for regulatory purposes in October 2013 and as presenters at the EBA's research workshop on how to regulate and resolve systemically important banks in November 2013.

The EBA has endeavoured to ensure the full transparency of the BSG's activities. In this context, the EBA website contains a specific section on the BSG, which includes information on the BSG members, its meeting dates

and minutes, membership of BSG standing technical working groups, its rules of procedure and all the opinions the BSG has provided to the EBA. Also, meeting dates and the list of BSG members, including their CVs, have been published online. On 3 October 2013 the EBA published a final report disclosing the activity and achievements of the first BSG ⁽⁷⁾.

With the aim of ensuring that stakeholders outside the BSG are also appropriately informed and engaged in the EBA's work, the EBA has established the practice of regular public hearings and bilateral meetings with representatives of some industry trade associations, consumers and employees. In addition, the EBA, in line with its obligation to follow due process, has organised open consultations on all technical standards and guidelines that are being drafted to ensure that input and comments are gathered from all interested parties.

External coordination of the EBA's work

The EBA has engaged in regular contacts with third countries' regulatory and supervisory authorities, think tanks and international financial standard setters.

The EBA has been participating on a regular basis in the European Commission's financial markets regulatory dialogues, providing technical advice and support to the Commission, including dialogues with Japan, Russia and the United States. The EBA has held bilateral supervisory and regulatory discussions with relevant authorities in Hong Kong (the Financial Services and the Treasury Bureau as well as the Hong Kong Monetary Authority), Japan (the Financial Services Agency and the Bank of Japan) and the United States (the Federal Reserve Board, the Federal Reserve Bank, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Institute of International Finance).

The EBA has been cooperating closely with Croatia, which joined the EU in July 2013, as well as with the EEA countries (Iceland, Liechtenstein and Norway) and Switzerland. Representatives of the EEA countries are invited to the EBA Board of Supervisors' meetings as observers, and are also part of selected EBA groups and institutional substructures.

The EBA has been directly involved in work of several international bodies. It has been participating as an observer at the meetings of the BCBS, some of its expert subcommittees (the Policy Development Group and the Supervision and Implementation Group) and in a number of their working groups specialising in various topics (such as capital, risk measurement, trading books, securitisation, liquidity, large exposures, operational risk, colleges, pillar 2, etc.). The EBA has been contributing to the Basel Committee's RCAP, and has also participated in the meetings of the Group of Governors and Heads of Supervision, the oversight body of the committee.

The EBA has been participating in some of the work streams of the FSB, including its Data Gaps Implementation Group, developing a common data template for global systemically important banks; its Cross-Border Crisis Management Group, dealing with the implementation of the FSB's key attributes of effective resolution regimes for financial institutions; and its Official Sector Steering Group, focusing on the reform of interest rate benchmarks, including Euribor. In the context of cooperation with the IMF, the EBA has held bilateral dialogues with the IMF and, together with other ESAs, was subject to the IMF's EU-wide financial sector assessment programme. The results of the assessment were published in March 2013 and focused on the issues of EBA governance, regulatory and supervisory actions, consumer protection and the stress testing of banks.

⁽⁷⁾ The report was titled 'End of term of office report of the Banking Stakeholder Group (BSG) of the EBA'. See <http://www.eba.europa.eu/documents/10180/17417/BSG+2013+Final+Report.pdf>

Strengthening common supervisory culture through training programmes

Sectoral training

The EBA's objectives include developing a common supervisory culture, enhancing supervisory convergence and building common supervisory skills shared by EU supervisors. One of ways through which the EBA has been fulfilling this objective is by providing training seminars, conferences and roadshows which disseminate sound supervisory standards, guidance and practices in the EU, assist supervisors in their implementation and keep

them updated with the latest information on market products, practices and techniques. The EBA organised 12 such training and workshop events in 2013, a detailed list of which is provided in the table below.

The feedback from the attendees has confirmed that most training events received very good or excellent ratings on programme structure and content of materials. Going forward, the EBA shall consider to the extent possible repeating training events that are successful, focusing on critical areas suggested by NSAs and encouraging candidates from the hosting countries to share their knowledge and expertise.

Figure 8: EBA sectoral training in 2013

Name of training activity	Date	Location	Number of participants
Understanding banking models and business risks (EBA hosted using procured trainer PwC)	11–13 February	London	31
Regulatory impact assessment	27–28 February	Frankfurt	32
Liquidity risk management	13–15 March	ESE/BuBa, Eltville	27
EBA-FSI joint training on implementation of Basel III-CRD IV	9–11 April	EBA/Financial Stability Institute, London	37
Training on functioning of colleges – workshops for consolidated supervisors	3 June	EBA, London	15
Training on functioning of colleges – workshops for consolidated supervisors	5 June	EBA, London	15
Good practices in IT supervision for financial institutions	23–25 October	DNB, Amsterdam	42
Workshop on identification of O-SIs	30 October	EBA	26
Model validation and review of internal models	11–13 November	EBA/ESE, Frankfurt	19
Implementation of Basel III-CRD IV	3 December	EBA, London	26
Update on stress testing	5 December	EBA, London	61
Drafting technical standards and impact assessments	10 December	EBA London	10
Total			341

Cross-sector training

With the objective of further developing a common supervisory culture the ESAs offered cross-sectoral training courses and facilitated personnel exchanges throughout 2013. In con-

sultation with NCAs, the ESAs identified priority topics on which a training programme for 2013 was developed. The cross-sectoral training programme delivered in 2013 included the following training activities.

Figure 9: Cross-sectoral technical training in 2013

TECHNICAL TRAINING

No	Name of training activity	Date	Location	Leading ESA	Host	Number of participants
1	Regulatory impact assessment	27–28 February	Frankfurt	EIOPA	EIOPA	48
2	Working with ESMA/ESMA's role and powers in the new legislative framework	14 May	Paris	ESMA	ESMA	39
3	Workshop on developing technical standards and undertaking impact assessments	30–31 May	London	EBA	EBA	24
4	Supervisory review process	25–26 June	Frankfurt	EIOPA	EIOPA	38
5	Workshop on XBRL implementation	1–2 October	Warsaw	EBA	PFSA (KNF)	105
6	General course on IFRS	21 November	Brussels	ESMA	ESMA	45
7	Colleges of supervisors	28–29 November	Berlin	EIOPA	BaFIN — ESE	53
8	Discussion and seminar on the CRA supervision and reduction of the reliance on ratings	11 December	Paris	ESMA	ESMA	25
Total:						377

Figure 10: Soft-skill courses in 2013

SOFT-SKILL COURSES

No	Name of training activity	Date	Location	Host	Number of participants
1	ESMA — presenting with impact	6–7 February	Paris	ESMA	12
2	ESMA on-site supervision beginner's course	26–27 March	Paris	ESMA	14
3	English of the European law	19 April	Bratislava	NBS	15
4	ESMA train-the-trainer for training organisers	22 April	Paris	ESMA	11
5	Seminar on English of the European law	16 May	Paris	ESMA	15
6	ESMA train-the-trainer for occasional organisers	24 May	Paris	ESMA	7
7	Advanced on-site supervision	29–30 May	Paris	ESMA	12
8	On-site beginner	10 September	Paris	ESMA	12
9	On-site advanced	17 September	Paris	ESMA	13
10	Effective meeting skills	7 October	Rome	IVASS	14
11	On-site beginner	16 October	Paris	ESMA	11
Total:					136

Figure 11: Number of cross-sectoral seminars in 2013 compared to 2012

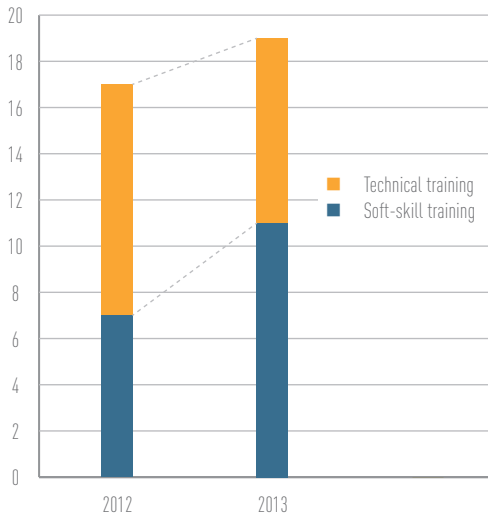


Figure 12: Number of participants in cross-sectoral seminars in 2013 compared to 2012



Figures 11 and 12 compare the number of training activities provided and the total number of participants.

In certain cases financial support was provided to NCAs where they, for reasons of budgetary constraints, might otherwise not have been able to attend. This ensured more equal representation at the ESA training courses, and such support, including reimbursement of travel and accommodation expenses, will continue in 2014.

The ESA sector and cross-sectoral training programme 2014 was developed based on NCA responses to the training needs assessment questionnaire 2013. This online survey was circulated to all NCAs in July 2013 and captured their responses to a number of proposed topics. All training programmes were first circulated to the joint committee for information and then to the ESAs' boards of supervisors in November and December 2013.



Joint Committee

The year 2013 was an important one for the joint committee, which stepped up the pace as a forum for cross-sectoral coordination and exchange of information. Under the chairmanship of EIOPA it focused in particular on cross-sectoral risk monitoring, consumer protection and the ESFS review exercise.

As a key forum for sharing information and data on risks between ESAs, the joint committee developed joint cross-sectoral reports on risks and vulnerabilities in the EU financial system, thus contributing to a cross-sectoral approach to risk analysis and anticipation, as well as financial stability. Two such reports were published on the websites of the ESAs in 2013 and shared with the EU institutions, in March and September respectively. In addition, information was regularly exchanged on specific topics, including cyber risks, risks as a consequence of criminal acts and bad business conduct.

Consumer protection is high on the agendas of the three ESAs, and is a topic where coordination is essential. To reach out to consumers of financial services, retail investors and other stakeholders, the ESAs organised their first Joint Consumer Protection Day, which was held on 25 June 2013 in Paris. This Joint Consumer Protection Day was intended as a forum for exchanges and discussions on important consumer issues, as well as on consumer protection supervisory practices. The Joint Consumer Protection Day attracted around 250 consumer representatives, academics, legal and financial consultants, national supervisors and experts from the EU institutions and the financial services industry.

Furthermore, in order to increase the market confidence of all participants, and in particular to ensure the adequate protection of complainants, ESMA and the EBA published, on 6 November 2013, a consultation paper on draft guidelines for complaints handling for the securities and banking sectors, building on the existing complaints-handling guidelines established by EIOPA for the insurance sector. The objective is to enable EU consumers to refer to a single set of complaints-handling arrangements, irrespective of the type of product or service or the geographical location of the firm in question. This in turn will also enable firms to streamline and standardise their com-

plaints-handling arrangements and national regulators to supervise the same requirements across all sectors of financial services across the EU. The final guidelines are expected to be published in the first half of 2014.

On 28 November 2013 a joint position was published detailing eight principles applicable to the oversight and governance processes of financial products. These principles cover the responsibilities of manufacturers and producers in setting up processes, functions and strategies for designing and marketing financial products, as well as reviewing the products' life cycles. They stress the importance of the controls that manufacturers should put in place before launching their products, thereby discouraging products and services that may be detrimental to consumers from entering the market and, ultimately, enhancing consumer confidence in financial markets.

As part of its work on financial conglomerates, the joint committee submitted its first joint draft RTS on the uniform conditions of application of the calculation methods for determining the amount of capital required at the level of the financial conglomerate under Article 6.2 of the financial conglomerates directive (Directive 2002/87/EC — FICOD) to the European Commission on 26 July 2013. Their underlying principles are to eliminate multiple gearing and the intra-group creation of own funds, to ensure the transferability and availability of own funds and to cover deficits at financial conglomerate level with regard to the definition of cross-sector capital.

The annual update of the list of identified financial conglomerates was published on 8 October 2013. The identification process has now been expanded in line with the enlarged scope of the FICOD so as to include reinsurance undertakings, asset management companies and alternative investment fund managers for the identification of financial conglomerates.

With regard to anti-money laundering and counter financing of terrorism, a report was published on the websites of the three ESAs on 8 November 2013. In addition, the joint committee considered matters related to, inter alia, cost recovery of agent inspections of cross-border payment institutions and distance customer due diligence, and started discussions on its work as envisaged under the upcoming fourth money laundering directive (4MLD).

Following the publication of the EBA and ESMA final report and principles for benchmark-setting processes in the EU in June 2013, the joint committee continued its discussions on benchmark-related issues, in particular on contingency matters and on the development of more robust models for benchmarks.

In November 2013 the ESAs jointly ran a public consultation on mechanistic references to credit ratings in the ESAs' guidelines and recommendations, as envisaged by the CRA regulation. The ESAs also initiated the joint work on draft ITS for mapping the credit assessment of external credit assessment institutions (ECAIs), for submission to the European Commission by 1 July 2014.

In addition, the joint committee started considerations on how to coordinate EU initiatives relating to the transparency of securitisation products, aiming at potentially limiting overlapping requirements for issuers and possibly identifying positive and negative patterns of securitisation.

Finally, with the European System of Financial Supervision (ESFS) under review by the European Commission after 3 years of existence, the ESAs actively cooperated in the review process by providing quantitative and qualitative data submissions on the activities of the ESAs to the European Commission, submitting a joint report on the achievements and challenges of the ESAs to the Council of the EU and participating in the European Commission's public hearing on 'Financial Supervision in the EU', on 24 May 2013 ^[8]. The ESAs also jointly responded to the European Parliament's ECON set of common questions for their regular annual public hearing, which took place on 24 September 2013, and provided their joint opinion on the functioning of the European Systemic Risk Board on 17 December 2013.

Through the joint committee the ESAs continued to provide operational and secretarial support to the Board of Appeal. The Board of Appeal worked on two appeal cases in 2013, publishing its first decision in an appeal brought by an Estonian company against a decision of the EBA on 24 June 2013.

Operations

Financial management

In the area of financial management, the EBA implemented a number of improvements to ensure better management and control of financial resources, resulting in improved budget execution for the current year budget and a significant reduction in carry-forward to next year.

The budget execution (total funds committed/total budget) in 2013 was 90 % for commitments (2012: 89 %) and 75 % for payments (2012: 57 %), which represents an important improvement compared to the previous year. The carry-forward at the end of 2013 represented 17 % of the funds committed, compared to 36 % at the end of 2012. See the annex for more information on the 2013 budget execution and out-turn.

The quality of the work in the financial management area was also confirmed by audits performed in 2013. Compared to previous audits there were no major findings identified, which was mainly due to the diligent following up of previously raised recommendations and the continuous improvement of existing processes in the EBA.

Human resources

Recruitment and the provision of required resources to all areas of the activities of the EBA were the key priorities of human resources activities in 2013. By recruiting 25 temporary agents and 10 seconded national experts the total number of staff increased to 124 by the end of 2013.

In 2013 the EBA received 1 624 applications and interviewed 153 candidates. The geographical diversity and the gender balance of previous year were maintained. The EBA's staff members come from 24 countries of the EU, and 43 % are female and 57 % are male.

The total staff turnover in 2013 represented 8.87 % due to resignation, contract expiry or termination.

[8] http://ec.europa.eu/internal_market/conferences/2013/0524-financial-supervision/index_en.htm

Information technology

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

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

To enhance the comparability of regulatory information and to harmonise the regulatory standards in the EU, EBA has released the financial and common regulatory framework (COREP and Finrep version 2.0), which triggered the implementation of the ITS in January 2014. This version includes significant improvements in terms of data-exchange standards in XBRL taxonomies, namely the data point model, which makes the format more transparent and reusable in a multinational environment.

In the execution domain the IT unit enhanced, maintained and operated a technical platform during the year for gathering supervisory information. At the end of the year the platform was insourced to the EBA data centre and deployed on a more flexible architecture. This will allow the EBA to execute independent risk assessments of credit institutions without the dependency on an external provider. The platform will support regular and ad hoc exercises and include functionalities for data acquisition, dissemination and storage, and an analytical platform for executing detailed analysis by the EBA.

Another achievement in the execution domain was the implementation of the near real-time-based Credit Institutions Register. The Credit Institution Register project delivered a platform to receive, aggregate, sort and disclose the data of all credit institutions and branches of credit institutions registered in the EEA. This list is now updated and published on a near real-time basis on the EBA website.

In the common IT services domain the EBA successfully completed a major IT infrastructure project that delivered a fully resilient hosted data centre which forms the foundation for current and future IT services. To leverage synergies between supervisory authorities, the project was done with the participation of EIOPA, which followed the EBA's approach in deploying a new IT infrastructure platform.

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

Communication

The EBA's press and communication activities continued to provide stakeholders and the media with easily accessible information in a timely and effective manner, with the objective of promoting clarity and understanding of the authority's role, objectives and tools, as well as fostering interaction among all interested parties.

One of the main achievements was the launch of a completely redesigned website in June 2013, which featured more user-friendly navigation and easier access to information and essential resources. A number of technical improvements were completed too, with sections added, reorganised and enhanced on the basis of users' feedback.

With a view to guaranteeing that the EBA's work remains equally accessible to as many EU stakeholders and citizens as possible, the EBA's guidelines and recommendations were made available in all the EU official languages. Moreover, a multilingual overview of the EBA, its structure and main activities was also included on the new website.

In parallel, the communications team continued to support a series of risk analysis activities, such as the EBA risk dashboard and the EU-wide transparency exercise.

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



- a policy research workshop to discuss measures on how to regulate and resolve systemically important institutions, which brought together leading economists from supervisory authorities and top academics;
- a workshop on stress testing, where high-level speakers from commercial banks and from regulatory and supervisory authorities gathered to discuss the most recent issues regarding stress testing in banks, stress tests as a risk management tool and stress testing from a regulatory perspective;
- a workshop on how the proportionality principle should be applied to the EBA's regulatory work within the context of the CRR/CRD IV.

Finally, on 19 November 2013, the EBA led a panel discussion at the Risk Management Conference organised in the context of 16th EuroFinance week in Frankfurt. During the discussion under the title 'Repairing the European banking sector — from recapitalisation to restructuring', the EBA illustrated the progress made in restoring market confidence in the EU banking system, as well as the remaining challenges.

Internal control standards

Since the start of its activities, and keeping pace with the growth of the authority, EBA has progressively developed and implemented a series of internal measures to ensure that its activities are subject to control and to provide reasonable assurance to management of the achievement of the authority's objectives.

These internal control measures help to ensure that the EBA's operational activities are effective and efficient, while also certifying that all legal and regulatory requirements are met, that financial and management reporting is reliable and that assets and information are safeguarded. In order to formalise the internal control system, the EBA has implemented a set of internal control standards (ICS) and minimum requirements which were also adopted by the Management Board. These ICS are based on, and fully in line with, equivalent standards established by the European Commission.

In early 2013 the European Commission Internal Audit Service conducted a limited review of the implementation of internal control standards in the EBA. In general, the review concluded that the EBA has made significant progress in implementing the ICS, as evidenced by the many examples of policies and procedures already in place to maintain an effective internal control system and plans for further improvement of the control environment. The EBA has put in place an action plan to address the areas where the review made recommendations for improvement.

Outlook

Regulation

A focus on credit risk for the technical standards in 2014

The EBA faces a challenging regulatory workload put forward by the CRD and the CRR. In 2014 the major focus will be on the area of credit risk, with 19 RTS to be submitted to the European Commission by 31 December 2014. In addition to this, the report on comparability and pro-cyclicality, which was issued by the EBA in December, highlighted a number of deficiencies in regulatory provisions to support

sufficient comparability of internal models outputs for regulatory purposes across the EU. The large number of issues to be resolved in the credit risk area set a very ambitious work programme for the EBA in this area.

Two types of deliverables have been included in the work plan for 2014 and onwards in the area of credit risk. Existing mandates under the CRR will need to be fulfilled, but also the findings of the Article 502 report on comparability and pro-cyclicality identified a number of important topics, which should also be considered in this aspect. Figure 13 presents a complete overview of the deliverables and the prioritisation embedded in the time plan.

Figure 13: Overview of credit risk deliverables and time work plan

Topic	CRR mandate/Article 502 mandate	Deadline
Grandfathering of equity exposures under IRB	CRR Article 495(3)	June 2014
Eligibility of collateral	CRR Article 194(10)	Sept. 2014
Assessment methodology of the IRB approach	CRR Articles 144(2), 173(3) and 180(3b)	Dec. 2014
	Guidelines on PD computation	Dec. 2015
Permanent partial use and roll-out plan	CRR Articles 148(6), 150(3) and 152(5)	Dec. 2014
	Guidelines on length and supervisory practices on roll-out plan	Dec. 2015
Mortgage risk weight/LGD floors	CRR Articles 124(4) and 164(5)	Dec. 2014
Data waiver for IRB calculation	CRR Articles 180(3)(a), 181(3)(b) and 182(4)(b)	Dec. 2014
Default definition	CRR Article 178(6)	Dec. 2014
	Guidelines on Article 178(7)	June 2015
	Treatment of defaulted assets	Sept. 2014
Disclosure of countercyclical buffer	CRR Article 440	Dec. 2014
Downturn LGD/CCF	CRR Articles 181(3a) and 182(4a)	June 2015
	Guidelines on downturn LGD calculation	Dec. 2015
	Guidelines on LGD in default and ELBE calculation	Dec. 2015
IRB specialised lending	CRR Article 153(9)	June 2015
Recognition of conditional guarantees	CRR Article 183(6)	June 2015
Treatment of LDPs	Treatment of LDP exposures	Dec. 2015

The CRR and the Article 502 mandates have been grouped on the basis of the homogeneity of the topics covered. From a prudential perspective, based on the materiality of the topics — these have been identified as major drivers of differences in capital requirements across banks in accordance with the Article 502 report — and the date of submission to the European Commission, the mandates will be prioritised (as shown in Figure 13).

With the exception of the treatment of defaulted assets, which the comparability report identified as a significant driver, the work plan prioritises the existing standards given under the CRR. The existing mandates for technical standards, however, also to a large extent overlap with identified divergences in the comparability reports.

The work for 2014 in the credit risk area will focus on the regulatory provisions that should contribute to a higher degree of harmonisation of capital requirements across EU institutions. The main piece of work will be the three RTS on the assessment methodology of IRB models. The significant divergent supervisory practices regarding the validation of IRB models has significantly affected the comparability of RWAs across EU countries, as already highlighted in the work carried out by the EBA in 2013. Therefore, these three RTS should contribute to the future harmonisation of validation practices and subsequently to a higher comparability of capital requirements across IRB institutions.

A second related set of RTS will deal with the permanent partial use of the standardised approach and the roll-out plans of IRB institutions. These RTS should also significantly contribute to the objectives of the single EU rulebook and will bring common criteria into two areas that have also been identified as relevant drivers of the lack of comparability of capital requirements within the EU.

Finally, the treatment of defaulted assets will also be addressed during 2014. In particular, early work on the computation of the IRB shortfall will be published in the second half of 2014, RTS on the materiality threshold will be submitted to the Commission by the end of 2014 and guidelines on the application of the default definition will be ready in 2015.

The EBA will also conduct very relevant work in the area of the new macro-prudential requirements embedded in the CRR. In particular, RTS will be prepared on the tightening of capital requirements for mortgages under both the IRB and standardised approaches that may take place, e.g. in light of financial stability concerns.

Despite its high impact on capital requirements, but due to the complexity of this issue, the work on downturn conditions for the calculation of LGDs and conversion factors (CF) will be initiated in 2014 but delivered to the Commission only in June 2015. The work on accompanying guidelines — which will also be needed to cover quite complex issues not envisaged in the legal mandate but still identified as detrimental from a supervisory perspective, such as the methodology of downturn LGD calibration — will start at the end of 2014 and will result in guidelines by the end of 2015.

Finally, the work planned on the LDP exposures, such as exposures to sovereigns, institutions and larger corporates, is also expected to represent a significant contribution to the harmonisation of the calculation of capital requirements. However, it will only be initiated in the second half of 2014 and finalised in 2015. This work may however have significant overlaps with work undertaken elsewhere and may therefore be subject to change.

Recovery and resolution areas to be regulated in a harmonised manner for the first time in the EU

Following the final publication of the BRRD the regulatory work of the EBA will decisively enhance the EU's recovery and resolution framework. The range of deliverables show the willingness of EU policymakers to enshrine a cooperative and harmonised approach to bank recovery and resolution measures and to try and mend the fractured cross-jurisdictional landscape of the single market.

In the BRRD, most EBA mandates have a delivery date of 12 months from finalisation of the directive, meaning a large number of consultations in this area will be launched in 2014. Overall, the BRRD specifies nearly 40 mandates to issue guidelines and draft RTS

and ITS to be endorsed by the Commission by means of delegated acts. These products cover recovery and resolution planning (including questions of proportionality in these areas), resolvability assessment and measures to overcome impediments to resolvability, early intervention and resolution triggers, intragroup financial support, conditions for the use of resolution tools, the definition of bail-in mechanisms and the minimum requirement for eligible liabilities, valuations serving as the basis for the use of the tools, notifications and information exchanges, and the functioning of resolution colleges.

In addition, the BRRD requires the EBA to draft four reports (on proportionality, on the implementation of the minimum requirement of eligible liabilities for bail-in, on the target level for resolution and on the publication of penalties) with a wider time horizon. For this purpose a monitoring activity will be set up and started by the end of 2014.

Contributions to the European Commission's delegated legislation

In December 2013 the EBA was invited to provide technical advice to the European Commission regarding several subjects within its remit. The EBA's technical advice, which will mostly be developed during the first half of 2014, will cover issues like: the preferential treatment of covered bonds in the prudential regulation across the EU; the development of a sound securitisation market, including an analysis of the characteristics available for the identification of 'high-quality' securitisations and requirements for institutions that invest in securitisations, as well as for the sponsor and originator institutions; the review of the scope of application and exemption of pillar 1 requirements; and the review of the implementation of the internal capital adequacy assessment process (ICAAP) and pillar 2 requirements. This technical advice will assist the European Commission in the preparation of reports and potential corresponding legislative acts to be presented to the European Parliament and the Council of the European Union on the appropriateness of various provisions in Regulation (EU) No 575/2013 (the CRR) and Directive 2013/36/EU (the CRD).

Ensuring future robust securitisations and covered bonds markets

The financial markets experienced significant turmoil in relation to securitisation markets, especially linked to the United States sub-prime market. The EU markets also experienced problems, although to a much lesser extent than the United States markets. The EU covered bond market experienced fewer problems, although at least one covered bond issuer was taken under national ownership. The experiences highlighted that the market for secured issuance should be reviewed.

Covered bonds

The EBA is preparing technical advice related to banks' activities on covered bonds issuance. The first request stems from the European Commission and is related to the appropriateness of the conditions under which the CRR grants certain covered bonds preferential risk-weight treatment. The EBA is expected to review such conditions by taking into account several factors such as the credit quality of the underlying assets, their collateralisation mechanism, the special public supervision for the protection of bondholders and the transparency to investors. The EBA is also going to provide advice on the appropriateness of granting preferential risk-weight treatment to covered bonds backed by specific underlying asset classes, including aircraft loans, loans secured by a financial guarantee but not by a mortgage and assets backed by either residential mortgages or commercial mortgages.

The analysis of the EBA on this topic is going to contribute to maintaining the favourable prudential treatment of the covered bond funding tool, which is very relevant to banks' lending activities in the EU, while ensuring that all the prudential conditions necessary for the safety and stability of the covered bond framework are in place.

The second request, published at the end of 2012 and stemming from the ESRB's recommendations on the funding of credit institutions, requires the EBA to identify best practices in the area of covered bonds. The EBA is assessing best practices with a particular focus on credit quality, collateral segregation, covered bonds' bankruptcy remoteness, risk management and transparency of the covered bond issuance.

The work of the EBA stemming from the ESRB recommendation goes in the direction of enhancing the harmonisation in the EU of national covered bond systems that, to date, remain substantially heterogeneous.

Securitisations

Following the publication of the EBA's RTS and ITS on, respectively, the securitisation retention rules and the convergence of supervisory practices in the application of additional risk-weights on transactions which do not comply with those rules, the European Commission requested that the EBA provide advice on the effectiveness of the requirements on both investor institutions becoming exposed to securitisation positions and sponsor and originator institutions. In carrying out such an assessment the EBA will take into account the main global developments in the regulation of securitisation so as to ensure that the EU's financial industry is competitive in the global securitisation markets.

Following the publication in March 2013 by the European Commission of the Green Paper on the long-term financing of the EU economy, focusing on measures to foster economic growth via the improvement of long-term financing systems and the diversification of financial intermediation for long-term investment in the EU, the EBA was asked to provide advice on the merits of, and the potential ways of, promoting a safe and stable securitisation market for banks' funding purposes. The EBA is, in particular, expected to elaborate on the appropriateness of promoting safe and stable securitisation markets through the prudential treatment of securitisation exposures, and to indicate whether, as well as on what grounds, a specific segment of the securitisation market should be granted preferential prudential treatment.

The contribution of the EBA to promoting a safe and stable securitisation market aims at reviving such markets, following the disruptions caused by the financial crisis, and in doing so will help enhance banks' funding opportunities with a view to increasing lending to the real economy.

Reform of the over-the-counter derivatives markets

The global comprehensive reform of the over-the-counter (OTC) derivatives market is based

on three main goals: improve transparency in these markets, mitigate systemic risk and protect against market abuse. To achieve these objectives within the Union, the European market infrastructure regulation (EMIR) establishes provisions introducing legal obligations to centrally clear certain types of OTC derivatives and to apply robust risk-mitigation techniques to the remaining non-centrally cleared transactions.

Following the publication by the EBA and ESMA of a number of EMIR-related technical standards in the field of central clearing, work is currently being undertaken to ensure robust risk-mitigation techniques in the field of non-centrally cleared transactions. Given the wide-ranging importance of non-centrally cleared transactions across financial markets, the three ESAs are required to jointly develop the corresponding draft technical standards that detail the financial regulation that will cover all non-centrally cleared derivatives.

Given the characteristics of these markets, and in order to avoid any possibility of regulatory arbitrage, the ESAs are currently working to a proposal that is aimed at harmonising the implementation within the EU and that is, at the same time, consistent with the international standards set by the BCBS and the International Organisation of Securities Commissions (IOSCO). After the consultation of industry stakeholders in the first half of 2014, the final framework will be submitted for the endorsement of the European Commission by year end.

Shadow banking activities

Beyond the mandates under the CRD IV/CRR and the BRRD, the EBA has also been tasked to provide the Commission with advice on the credit institution perimeter in the EU, which includes identifying divergences in the definition of credit institutions across Member States on the basis of the CRR definition, identifying and quantifying bank-like activities taking place outside the banking perimeter and highlighting relevant regulatory provisions. To that end, the EBA issued a questionnaire at the end of 2013 to competent authorities and has engaged with relevant stakeholders (ESMA, EIOPA, ESRB, FSB). An interim report to the Commission is expected to be finalised by the first quarter of 2014, with a final report due by the end of June 2014.

Oversight

Home-host coordination

Towards supervisory cooperation

In 2014 the EBA will continue its policy work with the development of the draft BTS on colleges of supervisors and the draft ITS on joint decisions on approval of internal models for the purpose of calculating risk-weighted exposure amounts and own fund requirements in line with the CRR. The EBA will submit these technical standards to the European Commission by end 2014.

Towards supervisory convergence

The year 2014 will be a pivotal one for the EBA in enhancing the convergence of supervisory practices as a number of products are planned to be finalised. Firstly, the draft guidelines for common procedures and methodologies for SREP are planned for public consultation and their subsequent publication will be a milestone for improving quality and consistency of supervision in the EU.

The single supervisory handbook

The SSH is a modular-based product developed by the EBA in consultation with competent authorities to promote best practices in supervisory processes and methodologies across the Union. Each module covers a different area of supervisory practice, as identified by a steering committee under the guidance of the Board of Supervisors. While not legally binding, competent authorities are expected to apply the handbook. Application of the handbook will be considered as a significant element in the assessment of the convergence of supervisory practices conducted by the EBA, and for the EBA peer review process.

Secondly, the work of the EBA on developing the single supervisory handbook (SSH), introduced by the revised EBA regulation, will see its first deliverables.

In 2014 the EBA will finalise the first module of the SSH, focusing on the business model analysis, which is one of the core elements of the common European SREP framework. The second module will look into the assessment of recovery plans by competent authorities and colleges of supervisors. Given the nature of the document and the level of supervisory detail, the modules of the SSH will not be published externally and will remain in the supervisory domain.

Additionally, the Commission has sent a number of calls for advice deriving from the CRD to the EBA, which the EBA will aim to address in the time frame requested. The Commission is seeking technical advice so that it can report back to the Parliament and the Council on the specific topic and propose changes where necessary. Oversight will be working on a call for advice on the use of waivers under pillar 1, ICAAP and SREP.

Implementation of the new recovery and resolution framework

The EBA will continue to seek to assist colleges of supervisors in their discussions on the content of the cross-border banking group recovery plans, which should be in line with international FSB standards and consistent with the template included in the recommendation.

To further guide and assist the competent authorities in their discussions and in order to raise overall standards in the development and assessment of recovery plans, in 2014 the EBA intends to repeat the comparison exercise and to perform it in a more comprehensive manner. New plans received will be included and 'deep dives' on key topics will be undertaken, e.g. on the approach to critical economic functions and the expected level of funds that might be raised.

The EBA will hold a workshop in spring 2014 to actively engage competent authorities in the assessment of recovery plans, to help streamline the discussions in colleges on this

topic and to share the findings of the analysis of the recovery plans presented to the Board of Supervisors in February 2014.

Furthermore, the EBA will be required to draft technical standards specifying the operational functioning of resolution colleges, which have to be established after the BRRD enters into force. This will include the cooperation between colleges of supervisors and resolution colleges.

Re-establishment of colleges under the Single Supervisory Mechanism

In 2014 the EBA will work closely with the SSM and the colleges of those banks to be included under the SSM to ensure the smooth transition of responsibilities. It is important that colleges continue to meet their legal requirements in this period; therefore the EBA stands ready to provide assistance where necessary. The SSM will take on the role of both home and host competent authority. From a policy perspective, coordination between the EBA and the SSM is essential, particularly for driving consistency in practices in the new supervisory architecture, namely the SREP guidelines, the SSH and the SSM supervisory manual (with which competent authorities under the SSM will need to comply).

The role of colleges in strengthening the EU banking sector

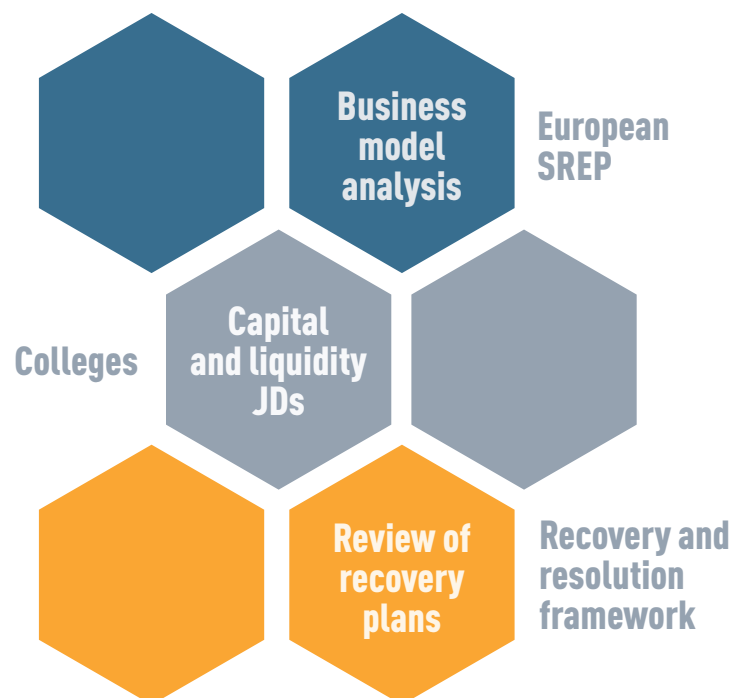
The year 2014 will also see colleges engaging heavily for the purpose of information sharing and possible examples of joint work in order to fulfil the EBA's recommendations on AQRs and capital preservation. Together with the EU-wide stress test, the three exercises form an important part of the work that colleges will undertake in 2014. They will require a significant cooperative effort and the EBA will be working closely with colleges to ensure that both home and host supervisors are kept well informed.

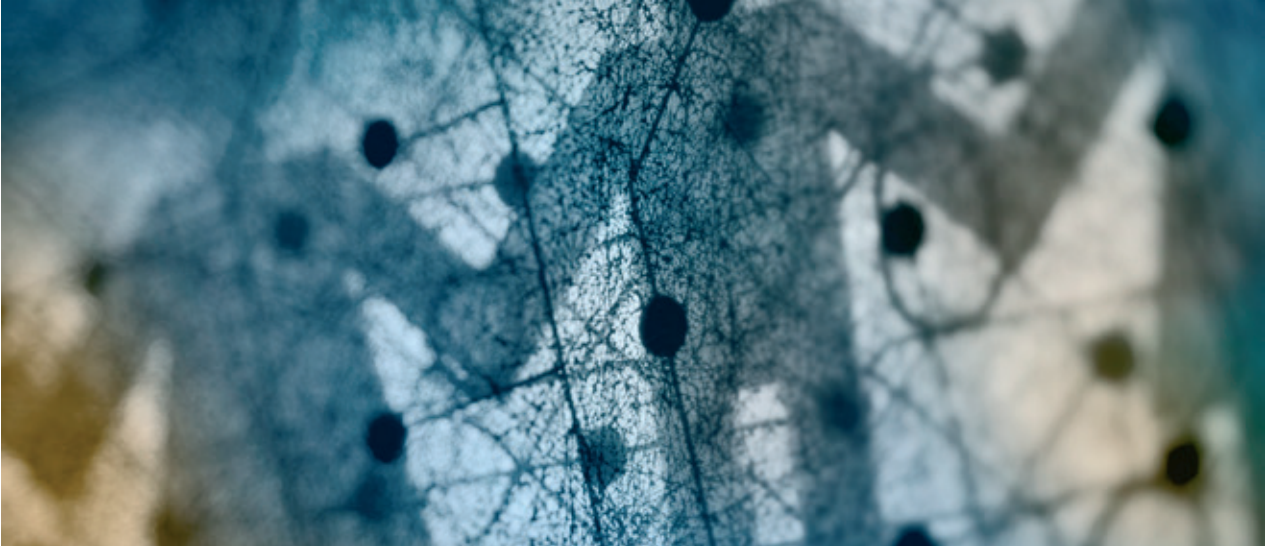
Enhanced engagement with colleges

One of the key aims of the EBA in 2014 on college cooperation is to provide training to relevant supervisors to ensure they are well equipped to meet the new requirements of the BTS and guidelines recently published and those in the CRD/CRR. The EBA will therefore organise a series of seminars and workshops focusing on the areas in Figure 14. These training sessions will aim to help supervisors from EEA competent authorities apply the technical standards submitted to the Commission at the end of 2013.

The EBA is also developing new communication tools to ensure close contact with supervisors of all colleges regardless of their size. Such tools will include news on policy documents, requirements for supervisors and other helpful updates.

Figure 14: Key topics where the EBA is focusing supervisory training





Risk analysis

Building infrastructure for reporting and implementing technical standards

During 2014, regulatory reporting will go live after enactment of the ITS on reporting. In early 2014 the EBA will publish its decision on the submission of data from competent authorities and its collection by the EBA, specifying what is to be collected, which institutions will be covered by the data collection (applying proportionality — there will be about 200 institutions) and reference and collection dates. In this manner, high-quality, up-to-date and comparable data, on a harmonised calendar, will be available to the EU supervisory community. Technical details will be specified by decisions of the executive director of the EBA in accordance with EBA procedures. It is expected that COREP collection will start in July 2014, and Finrep in December 2014.

Additionally, it is expected that in July 2014 the guidelines on funding plan reporting will enter into force, and this will be another data collection stream to be implemented during the second half of 2014 in order to be operational in 2015.

The EBA will continue to increase its capacity in collecting data and dealing with information from public and supervisory sources, and will provide detailed technical guidance to facilitate reporting by banks through automation.

Work on risk-weighted asset consistency

The EBA will continue its work on RWAs along the lines of the policy recommendations and in cooperation with other international bodies that are researching this area, such as the BCBS.

In particular, the analysis on mortgage risk parameters will be finalised and the conclusions on outliers and peer groups will be shared with competent authorities in order to promote good supervisory outcomes. The EBA will conduct a benchmarking exercise in 2014, which should provide supervisors with an essential tool to assess whether observed differences in RWAs stemming from banks' internal models are legitimate. The results will be shared between competent authorities and with the EBA. This, in turn, will promote consistency in the supervisory assessments.

The EBA will provide draft technical standards to the Commission that will stipulate that this benchmarking exercise should be repeated regularly.

Report on the capital preservation recommendation

The EBA, in cooperation with CAs, will follow up on the implementation of the recommendation by assessing the capital plans that firms will be submitting to their respective supervisors. Where applicable, this assessment will be done in a college setting. The EBA will be carrying out a review of the recommendation in the course of 2014.

EU-wide stress testing

The 2014 EU-wide stress test is designed to provide supervisors, market participants and institutions with consistent data to contrast and compare EU banks' resilience under adverse market conditions. To this end, the EBA has been working on, and will provide competent authorities with, a consistent and comparable methodology and scenarios which will allow them to undertake a rigorous assessment of banks' resilience under stress.

The exercise has been designed in coordination with the ECB, which in preparation for the SSM is conducting a comprehensive assessment comprising a risk assessment, an AQR and a stress test.

The EU-wide stress test will be conducted on a sample of 124 EU banks, which cover at least 50 % of each national banking sector, and will be run at the highest level of consolidation. Given its objectives, the 2014 EU-wide stress test will be conducted under the assumption of a static balance sheet which implies no new growth and a constant business mix and model throughout the time horizon of the exercise.

The resilience of EU banks will be assessed over a period of 3 years (2014–16).

Banks will be required to stress a common set of risks, including credit risk, market risk, sovereign risk, securitisation and cost

of funding. Both trading and banking book assets will be subject to stress, including off-balance-sheet exposures. Competent authorities may include additional risks and country-specific sensitivities beyond this common set, but the published results should allow for an understanding of the impact of the common set of risks in isolation.

In terms of capital thresholds, 8 % CET1 will be the capital hurdle rate set for the baseline scenario and 5.5 % CET1 for the adverse scenario. The relevant competent authorities may set higher hurdle rates and formally commit to take specific actions on the basis of those higher requirements.

The running of the exercise will involve close cooperation between the EBA and the competent authorities, including the ECB. In particular, the EBA will be responsible for coordinating the exercise in cooperation with the ECB (in case of SSM countries) and ensuring effective cooperation between home and host supervisors. Furthermore, the EBA will provide pan-EU benchmarks and will act as a data hub for the final dissemination of the common exercise. On the other hand, competent authorities will bear responsibility for overseeing the exercise with the banks and checking the quality of the results.

In April 2014 the final methodology and scenarios will be published, with final results publication scheduled for October 2014.

Macro-prudential work

The regulatory role of the EBA is focused on delivering good micro-prudential policies, but in some cases the EBA has also received some mandates that were linked to macro-prudential matters. For instance, competent authorities are asked to notify the EBA of the activation of some of the macro-prudential instruments provided for in the CRR/CRD IV, and the EBA has the obligation, in some cases, to issue an opinion. The EBA is also mandated to report to the European Commission by 30 June 2014 on whether the existing macro-prudential toolkit is sufficient to mitigate systemic risks in sectors, regions and Member States.

In performing these tasks, the EBA will aim at ensuring consistency in the development and implementation of the macro-prudential tools and that macro-prudential tools are not used to undermine the single rulebook.



Consumer protection and financial innovation

In 2014 the EBA will embark on a wide range of activities to protect consumers and monitor the risks arising from financial innovation, with a focus on mortgages, consumer credit, savings products, current accounts, credit/debit cards and payment services.

Consumer protection

In order to address various forms of consumer detriment and mis-selling, the EBA will continue work on product oversight and governance processes as one of the potential causal drivers for these phenomena. The design of financial products and services poses risks to consumers when the target market is not correctly identified and/or when the objectives and characteristics of the target market are not duly taken into account in the marketing of products.

The first phase of the work was completed in November 2013 by the joint committee of the three ESAs. The joint committee developed eight high-level principles that stress the importance of the controls that manufacturers need to have in place before launching their products and published them on 28 November 2013 in the form of a joint position.

In 2014 the EBA will continue with the second phase of this work and develop more detailed

requirements that build on the eight principles but are specific to the oversight and governance of banking products such as mortgages, personal loans, credit cards and savings products, as well as, to a lesser extent, payment services. The work is envisaged to be completed in the second quarter of 2014.

In order to address consumer protection issues arising from over-indebtedness and irresponsible mortgage lending, the EBA will assess the effectiveness of the two opinions that it published in June 2013 on good practices for responsible mortgage lending and for the treatment of borrowers in mortgage payment difficulties. The two opinions complemented, and provided suggestions on how to give effect to, the related provisions set out in the MCD.

The EBA will assess whether issues in the markets remain that require the opinions to be upgraded to more binding legal instruments. The EBA will also be publishing the final version of the RTS on the minimum coverage level for professional indemnity insurance for mortgage credit intermediaries following the end of the consultation period in March 2014.

With regard to bank accounts, the EBA will be preparing for the pending adoption of the proposed directive on the transparency and comparability of payment account fees, payment account switching and access to a basic payment account (commonly referred to as the payment accounts directive). The proposed directive is anticipated to give mandates to the EBA to develop guidelines to assist competent authorities with regard to the reasonable fee for payment accounts with basic features, and in identifying the most relevant services provided by banks on payment accounts.

As regards payment services, the EBA anticipates that the proposed revision of the payment services directive (PSD) will provide mandates to the EBA, particularly with regard to technical and security aspects. The EBA will be preparing the implementation of these directives, and will also assess whether payment services in general, and non-traditional forms of payment in particular, give rise to any consumer protection risks that are not yet mitigated by the PSD, the PSD2 or any other directive, and that therefore require additional regulatory mitigation.



Finally, the EBA will embark on work relating to staff remuneration and sales incentives for banking products, as another causal driver of potential mis-selling. It will also prepare its next annual consumer trends report, the fourth edition of which is scheduled for publication in January 2015.

Financial innovation

Following the publication of its consumer warning, the EBA decided to issue, in December 2013, a warning regarding the risks to consumers arising from using virtual currencies as a means to pay for goods and services. In order to address the question of whether virtual currencies can and ought to be regulated, the EBA will establish a taskforce that will identify risks more widely and assess what, if any, form of mitigation should be put in place.

Of the many new forms of fundraising that have emerged in recent years, crowdfunding has been the most widespread. Crowdfunding connects directly those who can give, lend or invest money with those who need financing for a specific project. This is usually done through online portals, also referred to as crowdfunding platforms.

To its proponents, crowdfunding offers an alternative source of funding to banks, many of which have restricted their credit provisioning across Member States in the wake of the financial crisis. However, crowdfunding can also give rise to risks for both fund seekers and fund givers, and participants in the crowdfunding market may lack the confidence to engage if such risks are known to materialise.

Jointly with ESMA, the EBA will be assessing the scale of the phenomenon to identify any risks that may arise and what, if any, regulatory and/or supervisory actions may need to be taken, and will form a view on whether an EU regulatory framework is required and, if so, what form that framework should take.

Finally, the EBA will continue to monitor financial innovations, including phenomena such as longevity risk transfer and credit institutions' reliance on structured products as a source of funding, and take appropriate action where required.

Miscellaneous activities

The EBA will, jointly with ESMA and EIOPA, co-organise Consumer Protection Day 2014, which will be held in London in June 2014.

Policy analysis and coordination

In 2014 the Policy Analysis and Coordination Unit will continue to provide guidance and support on impact assessments of the policy, regulatory and supervisory products of the EBA. It will provide support to the main governing bodies — the Board of Supervisors and the Management Board — including the planning, preparation and following up of action agreed at their meetings, as well as to the EBA's executive director in the planning, prioritising, monitoring, execution and following up of the deliverables stemming from the EBA's work programme. The unit will ensure the internal and external coordination of the EBA's policy, regulatory and supervisory work between departments or units, as well as with EU institutions, other members of the ESFS and external bodies, such as the BCBS and IMF. The unit will provide coordination and support in relation to EBA's chairmanship of the Joint Committee of the ESAs in 2014. It will continue to coordinate the supervisory training activities the EBA offers to NSAs and to provide support to the ESAs' board of appeal, a new BSG was appointed in October 2013, and the EBA's review panel, which will in 2014 focus on executing the review of EBA guidelines on concentration risk (GL31). With a view to enhancing the efficiency of the legal analysis of the EBA's products, a separate Legal Unit will specifically focus on the provision of legal support on the EBA's legal mandates and the legislative drafting of EBA products, and the provision of legal advice pertaining to fields across the EBA's departments in general.

Joint committee

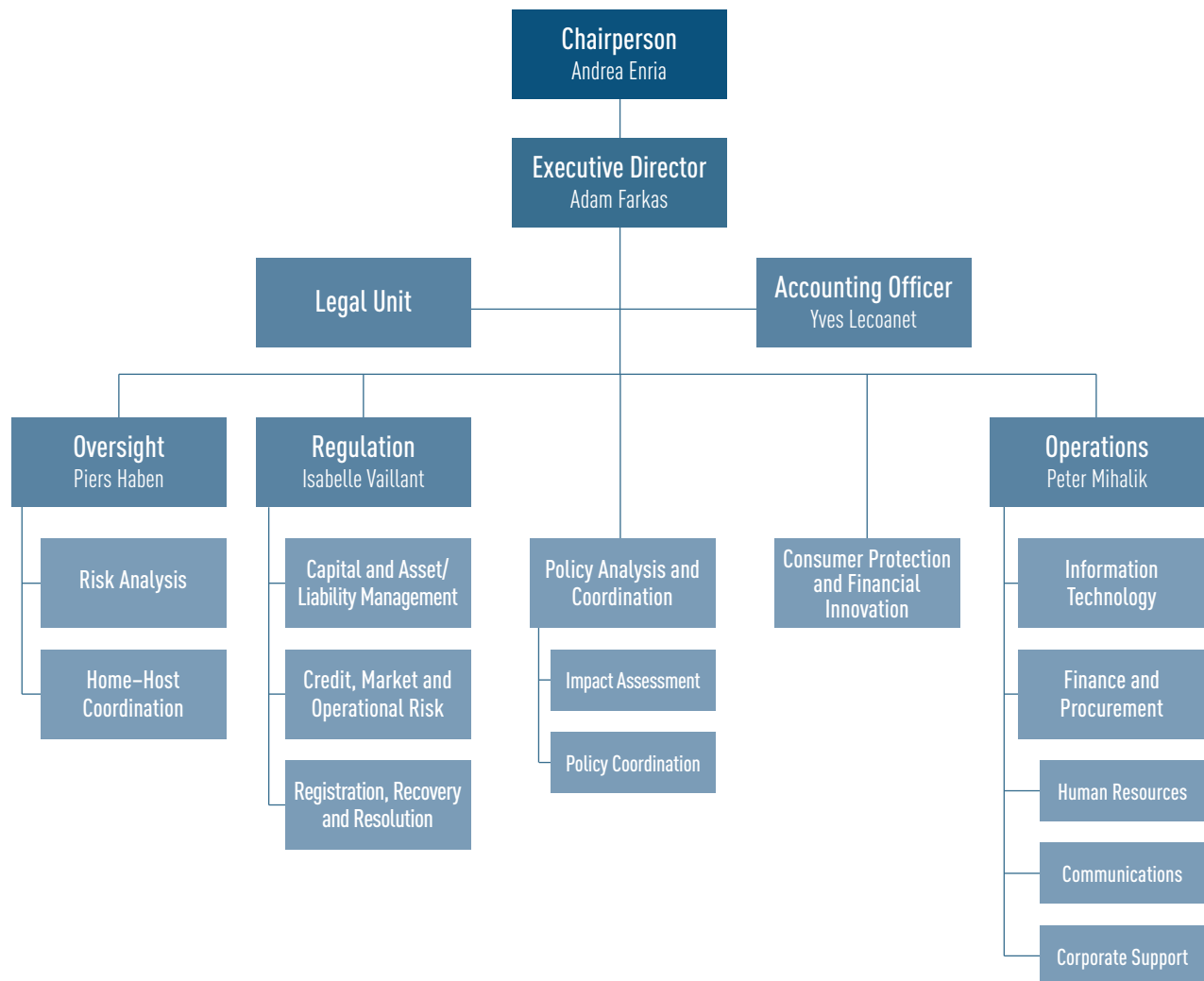
In 2014 the ESAs will continue to ensure through the joint committee that consumer protection and cross-sectoral risk analysis and assessment will continue to be the two main areas to focus on. The joint committee will publish in 2014 two reports on risks and vulnerabilities, and will present them to the Council's Economic and Financial Committee's Financial Stability Table. It will carry out analysis of interactions and possible unintended consequences between the CRD IV/CRR, solvency II and bank recovery and resolu-

tion legislative frameworks. It will finalise the guidelines on complaints handling to provide EU consumers with a single set of complaints-handling arrangements, and will organise a second Joint Consumer Protection Day to take place in London. The joint committee will also work on the development of draft RTS on definitions, risk concentration and intra-group transactions for financial conglomerates, as well as on the development of guidelines on coordination arrangements for financial conglomerates, on prudential assessment of acquisitions and increases in holdings in the financial sector and on anti-money laundering risk-based supervision.



Annexes

Organisation chart



Declaration of assurance from the authorising officer

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

- Declare that the information contained in this report gives a true and fair view ^(?).
- State that I have reasonable assurance that the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principle of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.

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

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

London, 20 May 2014

Adam Farkas,
Executive Director of the European Banking Authority

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

Financial report

The EBA's financial performance in 2013

The annual accounts of the EBA have been established in accordance with the EBA's financial regulation adopted by the EBA's Board of Supervisors, as well as with the framework financial regulation (Commission Delegated Regulation (EU) No 1271/2013 of 30 September 2013 on the framework financial regulation for the bodies referred to in Article 208 of Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council) ^[10].

^[10] The report from the European Court of Auditors on the EBA 2013 accounts is expected to be received in June 2014. The EBA's full annual accounts will be published on the EBA website by 1 July 2014.

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

Budget result

The budgetary accounts below give a detailed picture of the implementation of the budget in 2012 and 2013. They are based on the modified cash accounting principle. In 2013 the EBA used only non-differentiated appropriations. The total consumption of commitment appropriations reached EUR 23 498 099, of which EUR 19 562 535 has been paid and EUR 3 935 564 was carried over as per Article 14 of the EBA's financial regulation.

Figure 15: Budget result

		2013	2012
REVENUE			
Balancing Commission subsidy	+	8 955 000	7 561 538
Surplus from 2011	+	3 579 860	—
Fee income	+	—	—
Contributions from NSAs		13 056 162	11 045 491
Contributions from observers		376 338	296 513
Other income	+	13 642	295 651
TOTAL REVENUE (a)		25 981 002	19 199 193
EXPENDITURE			
Title I: Staff			
Payments	-	12 985 781	8 953 661
Appropriations carried over	-	249 850	206 048
Title II: Administrative expenses			
Payments	-	3 675 753	2 029 498
Appropriations carried over	-	2 034 511	1 643 935
Title III: Operating expenditure			
Payments	-	2 901 001	849 375
Appropriations carried over	-	1 651 203	4 697 825
TOTAL EXPENDITURE (b)		23 498 099	18 380 342
BUDGET RESULT FOR THE FINANCIAL YEAR (a - b)		2 482 903	818 851

(EUR)

		2013	2012
Cancellation of unused payment appropriations carried over from previous year	+	828 736	364 530
Adjustment for carry-over from the previous year of appropriations available at 31 December arising from assigned revenue	+	—	—
Exchange differences for the year (gain +/loss -)	+/-	297 079	(83 318)
BALANCE OF THE BUDGET RESULT ACCOUNT FOR THE FINANCIAL YEAR		3 608 718	1 100 063
Balance year <i>n</i> - 1	+/-	1 100 062	3 579 861
Positive balance from year <i>n</i> - 1 reimbursed in year <i>n</i> to the Commission	-	(1 100 062)	(3 579 861)
Result used for determining amounts in general accounting		3 608 718	1 100 063
Commission subsidy — agency registers accrued revenue and Commission accrued expense		8 926 142	6 461 476
Pre-financing remaining open to be reimbursed by agency to Commission in year <i>n</i> + 1		3 608 718	1 100 062
Not included in the budget result:			
Interest generated by 31 December of year <i>n</i> on the Commission balancing subsidy funds and to be reimbursed to the Commission (liability)	+	22 636	53 004

Budgetary execution in 2013

The table below shows the status of commitments and payments as of 31 December 2013, together with the amounts carried over to the 2014 financial year.

At the end of 2013 the EBA had a budget execution rate of 90.3 % for commitments and 75.3 % for payments.

In title I, in spite of the fact that the recruitment plan was fully achieved, the commitment rate was negatively impacted by the non-payment of the salary adjustments for 2011/12 proposed by the Commission, disputed by the Council and finally rejected by the Court of Justice on 19 November 2013. The provision made in the financial statements as at 31 December 2013, on the basis of the final agreement reached by

the Parliament, the Council and the Commission, amounts to EUR 1 692 631, i.e. 11 % of title I or 6.5 % of the overall EBA budget.

In title II, while 98.3 % of the 2013 appropriations were used, the payment execution rate of 63.9 % was significantly lower. This relates to commitments made in the last quarter of the year for which invoices will be provided in 2014, especially related to the budget lines for IT, communications and office management.

In title III the commitment execution rate was 92.1 %, although the payment execution rate was significantly lower at 58.7 %. The reason is that a number of large IT contracts that were initially signed at the end of 2012 came up for renewal at the end of 2013. The payments will be made in 2014, when the services are delivered.

Figure 16: Budgetary execution

(EUR)

Title	Appropriations (1)	Committed (2)	Percentage committed (2) / (1)	Paid (3)	Percentage paid (3) / (1)	Carried forward (2) – (3)	Appropriations cancelled (1) – (2)
Title I: Staff expenditure	15 277 408	13 236 632	86.6 %	12 985 781	85.0 %	250 850	2 040 776
Title II: Administrative expenditure	5 748 289	5 650 265	98.3 %	3 675 753	63.9 %	1 974 511	98 025
Title III: Operational expenditure	4 941 663	4 552 204	92.1 %	2 901 001	58.7 %	1 651 203	389 459
TOTAL	25 967 360	23 439 100	90.3 %	19 562 535	75.3 %	3 876 565	2 528 260

Statement of financial performance

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

The high positive amount of the economic result in 2012 was explained by the high level

of carry-forward to 2013, arising mainly from services financed from the 2012 budget but to be received in 2013.

Conversely, the negative economic result for 2013 essentially stems from those same services, received in 2013 but financed from the 2012 result.

Figure 17: Statements of financial performance

(EUR)

	2013	2012
OPERATING REVENUE		
Contribution from the Member States	13 056 163	11 045 491
Contribution from EFTA countries	376 338	296 513
EU subsidy	8 926 142	6 461 476
Foreign currency conversion gains	703 659	268 686
Other administrative revenue	571	72 318
TOTAL OPERATING REVENUE	23 062 873	18 144 484
OPERATING EXPENSES		
Staff expenses	12 182 252	8 979 990
Building and related expenses	1 932 416	1 230 740
Other expenses (including operational expenses)	8 781 953	3 459 456
Depreciation	760 381	214 415
Foreign currency conversion losses	406 580	352 004
TOTAL OPERATING EXPENSES	24 063 581	14 236 605
SURPLUS (DEFICIT) FROM OPERATING ACTIVITIES	(1 000 709)	3 907 879
NON-OPERATING REVENUES (EXPENSES)		
Financial expenses	(3 067)	(6 870)
SURPLUS/(DEFICIT) FROM NON-OPERATING ACTIVITIES	(3 067)	(6 870)
SURPLUS/(DEFICIT) FROM ORDINARY ACTIVITIES	(1 003 776)	3 901 009
SURPLUS/(DEFICIT) FROM EXTRAORDINARY ITEMS	—	—
ECONOMIC OUT-TURN FOR THE YEAR	(1 003 776)	3 901 009

Balance sheet

The balance sheet provides the financial position of the EBA as at 31.12.2013 and 31.12.2012.

Figure 18: Balance sheet

	31.12.2013	31.12.2012
<i>(EUR)</i>		
ASSETS		
NON-CURRENT ASSETS		
Intangible fixed assets		
Computer software	1 231 737	28 186
Tangible fixed assets		
Computer hardware	190 283	89 220
Furniture	183 931	71 255
Other fixture and fittings	1 302 483	346 388
Total	2 908 434	535 049
CURRENT ASSETS		
Current receivables	1 325 331	172 537
Sundry receivables	125 621	19 264
Prepaid expenses	704 305	291 924
Cash and cash equivalents	6 091 340	8 945 787
Total	8 246 597	9 429 512
TOTAL ASSETS	11 155 031	9 964 561
LIABILITIES		
NON-CURRENT LIABILITIES		
Provision for risks and charges	2 576 631	1 403 155
Total	2 576 631	1 403 155
CURRENT LIABILITIES		
Current payables	1 300 183	2 824 557
Sundry payables	95 926	29 070
EU entities	3 631 354	1 153 066
Total	5 027 463	4 006 693
TOTAL LIABILITIES	7 604 094	5 409 848
NET ASSETS		
Accumulated surplus/(deficit)	4 554 713	653 704
Economic out-turn for the year — profit/(loss)	(1 003 776)	3 901 009
TOTAL NET ASSETS	3 550 937	4 554 713

Legal Counsel

2013 key achievements

The key deliverables provided by the Legal Counsel Unit in 2013 mainly related to the drafting of the authority's legal framework and the provision of legal advice pertaining to fields across the EBA departments and units. The unit also managed and oversaw the organisation and functioning of the two main governing bodies, i.e. the Board of Supervisors and the Management Board. The unit operates both on its own initiative and after requests, and has a mandatory function vis-à-vis the implementation of the governing bodies' decision-making process.

Resources in the unit were also allocated to the provision of legal advice relating to the EBA's founding regulation and the drafting and interpretation of implementing rules, rules of procedure and codes of conduct, together with the drafting of numerous decisions taken by the Board of Supervisors, the Management Board, the chairperson and the executive director, all of which were required for the authority to fulfil its duties as intended by its founding regulation.

Numerous other legal responsibilities were derived from the EBA's institutional setting, such as, inter alia, the negotiation and drafting of agreements and other undertakings; advisory support; the conclusion of contracts, service level agreements, framework agreements and MoUs; and the completion of all related formalities.

The unit oversaw requests relating to transparency and public access to documents pursuant to Regulation (EC) No 1049/2001, provided interpretation of the staff regulations and the conditions of employment of other servants (CEOS) and dealt with complaints received directly from individuals and also those received via the European Ombudsman's office.

Furthermore, the unit was also responsible for issues relating to intellectual property rights and professional secrecy, and also to data protection in light of Regulation (EC) No 45/2001, whereby the unit liaised with the office of the European Data Protection Supervisor (EDPS) and submitted to the EDPS numerous notifications on processed operations.

The unit is the main contact point with the European Anti-Fraud Office (OLAF). Maintaining high ethical standards is a key priority for the EBA. It is important in retaining the legitimacy of the authority's role and in protecting the authority's interests and reputation. Maintaining appropriate standards of behaviour lends credibility to the EBA's work. Within this context, apart from the ethics guidelines which are already in force and applicable to all EBA staff, regardless of grade or category, the unit also commenced the development of further policies in relation to independence and decision-making processes regarding declarations of interests.

The unit also dealt with protocol and matters arising in connection with the authority's relations with EU Member States, EU accession or candidate countries, third countries, international organisations and relations with the host state. Regarding the latter, the unit oversaw the notion of privileges and immunities and the interpretation and operational implementation of aspects of the revised administrative agreement and headquarters agreement with the host state.

One of the key challenges in 2013 was related to the proactive contribution to the further overall development of the EBA's legal framework, as the unit advises on any internal issues which could potentially give rise to litigation, providing legal advice, managing cases of litigation at both administrative and judicial level and representing the EBA in legal disputes before the ESA's Joint Board of Appeal, the Court of Justice, the General Court and the Civil Service Tribunal.

Due to the entry into force of Regulation (EU) No 1022/2013 amending Regulation (EU) No 1093/2010, the Board of Supervisors' rules of procedure were amended and updated accordingly. Elections for positions within the EBA's structures were conducted and overseen, such as for members of the EBA Management Board, the EBA Mediation Panel and the EBA's BSG.

Apart from preparing legal instruments the unit also addressed questions relating to the interpretation of the Treaty on European Union and the Treaty on the Functioning of the European Union, and contributed to the EBA's legal position vis-à-vis the EU's institutions and bodies.

Throughout 2013 the unit continued to provide legal assistance pertaining to fields across the remit of the EBA in order to ensure a legally sound environment for the authority, whereby it identified possible legal problems associated with the EBA's activities. The unit provided constant monitoring and implementation of laws applicable to the authority to prevent it from incurring legal risks and developed solutions for them.

The unit also ensured the proper interpretation and implementation of primary and secondary legislation applicable or pertaining to the EBA and its activities, and ensured the regularity and legality of the authority's measures.

Governing bodies

Board of Supervisors

According to the EBA's founding regulation, the Board of Supervisors is the main decision-making body and gives guidance to the work of authority. It is composed of the EBA's chairperson and the heads of the 28 NSAs, where applicable accompanied by a representative of the national central bank, with observers from the European Commission, the ESRB, the ESMA and the EIOPA, and one representative nominated by the Supervisory Board of the ECB, (who is non-voting). Iceland, Liechtenstein and Norway also attending the Board of Supervisors' meetings as observers, representing non-EU countries of the EEA.

During 2013 the Board of Supervisors met 10 times. Six of these meetings were physical meetings (including the Board of Supervisors' away day meeting) and four of them took place via conference call.

Throughout 2013 the Board of Supervisors adopted a significant number of decisions required by the EBA's founding regulation. As of 13 October 2013, and pursuant to the amended Article 44 of the EBA regulation, the different decisions entrusted to the Board of Supervisors were adopted under the new voting modalities, and a new IT voting tool was put in place to assist with this development.

The conclusions of all Board of Supervisors' meetings (physical meetings and conference calls) were minuted and published on the EBA webpage.

The election of the alternate chairperson took place during the physical Board of Supervisors' meeting of 1 July 2013. Mr Pedro Neves Duarte was elected as alternate chairperson.

This year, the away day meeting took place on 11 and 12 July 2013 in Lisbon, and was hosted by the Banco de Portugal.

Management Board

Pursuant to the EBA's founding regulation, the Management Board ensures that the EBA carries out its mission and performs the tasks assigned to it.

The Management Board is composed of six members elected from the Board of Supervisors by and from its members. The executive director and a representative of the European Commission participate in meetings of the Management Board without the right to vote.

An election for the Management Board members took place at the Board of Supervisors' meeting of 1 July 2013 pursuant to the revised Board of Supervisors' rules of procedure. This election took place by simple majority voting, factoring in the new Board of Supervisors' rules of procedure amendments vis-à-vis the election/composition of the Management Board and ensuring that at least two non-participating SSM Member States were represented on the Management Board.

During 2013 the Management Board met seven times. Five of these meetings were physical meetings and two of them took place via conference call. The conclusions of the Management Board meetings are minuted and published on the EBA website.

Throughout 2013 the Management Board adopted a significant number of decisions required by the EBA founding regulation.

Regulatory compliance of guidelines and recommendations

A reduction in the level of compliance by NCAs with EBA guidelines and recommendations was noted in 2013. Specifically, the following were noted.

- With regard to EBA/GL/2013/01 on retail deposits subject to different outflows, the EBA did not receive notification on compliance from the Българска народна банка (Bulgarian National Bank).
- With regard to EBA/GL/2013/02 on FX lending, the EBA did not receive notification on compliance from the following NCAs: Bulgarian National Bank; Κεντρική Τράπεζα της Κύπρου (Central Bank of Cyprus), Cyprus; Bundesanstalt für Finanzdienstleistungsaufsicht (Federal Financial Supervisory Authority), Germany; Finanssivalvonta (Finnish Financial Supervisory Authority), Finland; Autorité de Contrôle Prudentiel et de Résolution (Prudential Supervisory and Resolution Authority), France; Τράπεζα της Ελλάδος (Bank of Greece), Greece; Banca d'Italia (Bank of Italy), Italy; Lietuvos Bankas (Bank of Lithuania), Lithuania; De Nederlandsche Bank (National Bank of the Netherlands), the Netherlands; Komisja Nadzoru Finansowego (Polish Financial Supervision Authority), Poland; and Banco de Portugal (Bank of Portugal), Portugal.
- With regard to EBA/REC/2013/01 on supervisory oversight of activities related to banks' participation in the Euribor panel, the National Bank of the Netherlands has partially complied, notifying the EBA that it will not apply Article 10 of the recommendation, which provides that NCAs should encourage banks to be part of the Euribor panel.
- With regard to EBA/REC/2013/02 on the development of recovery plans, the EBA did not receive notification on compliance from the following NCAs: the Bank of Italy; the Central Bank of Cyprus; and the Bank of Portugal. The Bank of Greece has partially complied, notifying the EBA that the content of the recovery plans to be submitted initially by the Greek banks is expected to be less detailed. The Bank of Greece intends, however, to fully comply in the future.
- With regard to EBA/REC/2013/03 on preservation of core tier 1 capital, the Central Bank of Cyprus has notified the EBA that it will not comply, arguing that the objectives of the recommendation are achieved for Cypriot banks with other measures.
- With regard to EBA/REC/2013/04 on AQR, the EBA did not receive notification on compliance from the following NCAs: Hrvatska Narodna Banka (Croatian National Bank), Croatia; Central Bank of Cyprus; Finnish Financial Supervisory Authority; Prudential Supervisory and Resolution Authority; Bank of Greece; Bank of Portugal; and Národná Banka Slovenska (National Bank of Slovakia), Slovakia.

Statistics on disclosure

In 2013 four formal requests for public access to documents were lodged at the EBA pursuant to Regulation (EC) No 1049/2001.

EUROPEAN BANKING AUTHORITY

Tower 42
25 Old Broad Street
London EC2N 1HQ

Tel. +44 2073821770
Fax: +44 207382177-1/2
E-mail: info@eba.europa.eu

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



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