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# PEER REVIEW REPORT

ON THE APPLICATION OF PROPORTIONALITY IN  
THE SREP

EBA/REP/2025/02

JANUARY 2025



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# List of abbreviations

ACP	Advisory Committee on Proportionality
CA	Competent Authority
CRD	Capital Requirements Directive (Directive 2013/36/EU)
CRR	Capital Requirements Regulation (Regulation (EU) No 575/2013)
EBA	European Banking Authority
ECB	European Central Bank
EEA	European Economic Area
FTE	Full time equivalent
HQLA	High Quality Liquid Assets
ILAAP	Internal Liquidity Adequacy Assessment Process
JST	Joint Supervisory Team
LSI	Less significant institutions
MS	Member State
NCA	National Competent Authority
PRC	Peer Review Committee
RTGS	Real-Time Gross Settlement
SAQ	Self-Assessment Questionnaire
SI	Significant institutions
SREP	Supervisory Review and Evaluation Process

## Executive summary

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The EBA's guidelines for common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing under the CRD (SREP Guidelines) set out proportionality provisions in relation to the classification of institutions and supervisory engagement and as regards the simplified Pillar 2 approaches in the SREP assessment. The aim is to allow a proportionate approach towards the intensity of the supervisory engagement and towards the focus and granularity in the assessment of the SREP elements, providing flexibility to adapt the supervisory focus and resources according to the significance and risk profile of the institution and the nature, scale and complexity of its activities.

This report sets out the findings of that peer review which was conducted on the following competent authorities: ACPR FR, BaFin DE, CSSF LU, KNF PL, MNB HU, and ECB. These competent authorities were selected to be broadly representative of the range of prudential supervisors across the EU using two criteria: the amount and mixture of credit institutions operating in their jurisdiction warranting different supervisory approaches and engagement; and the presence of credit institutions with a variety of total asset sizes, complexity and business models.

The peer review found that proportionality in the SREP and in the liquidity assessment under the SREP is largely implemented by the competent authorities under review though with some adaptations to the local context and the risk profile of the institutions under their supervisory remit.

The Peer Review Committee identified a number of best practices allowing for the efficient use of supervisory resources in the application of proportionality including the use of benchmarking tools, 'pilot inspections' where several institutions use the same service provider, and spot checks on the quality, accuracy and reliability of information provided by institutions in self-assessment questionnaires.

However, some deficiencies were identified concerning consistency of implementation of the SREP guidelines, sources used for SREP categorisation and implementation of the minimum engagement model for meeting institutions' management body and senior management. While these do not lead to material risks being unaddressed, they undermine the aim of the SREP Guidelines of having a more consistent approach across the EU to how SREP is applied by competent authorities and can lead to similar credit institutions being treated differently across jurisdictions without good reasons.

Indeed, some provisions for the application of proportionality in the SREP included in the SREP Guidelines are not being used in practice or are not used to their full extent. Examples include provisions allowing supervisors to:

- adapt the focus and granularity of the SREP assessments according to the risk profile of the institution regardless of their categorisation;

- use tailored methodologies for institutions with similar risk profiles; and,
- conduct thematic SREP assessments on multiple institutions as a single assessment ('clustering').

Supervisors are strongly recommended to make use of these provisions in their SREP assessments as part of a risk-based approach and effective allocation of resources.

The follow-up measures for all competent authorities, including those not included in the initial review, include the incorporation of the CRR classification of 'large' and 'small and non-complex' institutions into the categorisation of institutions in order to ensure alignment across the different pillars in the application of proportionality. They also include alignment to the minimum engagement model as regards to the minimum frequency for meetings with the institutions' management body and senior management.

Whereas in general proportionality in the liquidity risk assessment under the SREP is being applied, there are some follow-up measures with regards to the use of supervisory liquidity stress testing, as well as the provided room for proportionality, as an independent tool to assess short- and medium-term liquidity risks.

The EBA will conduct a follow-up peer review of the implementation of the measures included in the report in two years.

# 1. Introduction

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## Role of peer reviews

1. One of the European Banking Authority (EBA)'s tasks is to conduct peer reviews of the activities of competent authorities (CAs), to further strengthen consistency and effectiveness in supervisory outcomes.
2. Peer review reports set out the main findings of the peer reviews. They also identify follow-up measures for CAs that are considered appropriate, proportionate and necessary as a result of the peer review. Follow-up measures are of a general nature and are applicable to all CAs, including those that were not targets of this peer review, unless specified otherwise.
3. A follow-up report undertaken two years after this report will assess the adequacy and effectiveness of the actions undertaken by CAs in response to these follow-up measures. The follow-up report could cover also CAs that were not subject of this peer review, so all CAs should consider the findings of this peer report and any follow-up measures.
4. This chapter gives an overview of how this particular peer review was conducted, and of the supervisory activities reviewed.

## Topic

5. The overall objective of this peer review is to examine the effectiveness of, and degree of convergence reached in, the application of proportionality in accordance with the requirements of section 2.4 of the SREP Guidelines (EBA/GL/2022/03).<sup>1</sup>
6. Proportionality is an important part of the SREP enabling competent authorities to adapt the scope, frequency and intensity of the supervisory engagement and the risk assessment with regard to the nature, scale and complexity of the risks of an institution. The SREP Guidelines recognize the principle of proportionality by:
  - categorising institutions in four distinct categories according to their size, systemic importance, nature, risk profile and the extent of any cross-border activities<sup>2</sup>;
  - building a minimum supervisory engagement model, where the frequency, depth and intensity of the assessments vary depends on the category of the institution<sup>3</sup>;

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<sup>1</sup> [Guidelines for common procedures and methodologies for the supervisory review and evaluation process \(SREP\) and supervisory stress testing under Directive 2013/36/EU \(EBA/GL/2022/03\).](#)

<sup>2</sup> Also making the link with the CRR definitions of 'large' and 'small and non-complex institutions' to ensure consistency across the Pillars.

<sup>3</sup> Complemented by regular monitoring of key indicators and continuous assessment of the risk profile of the institution.

- allowing competent authorities to adapt the focus and granularity of the assessment in view of the risk profile of the institution, and the materiality of the risks (and any changes thereof);
- providing further clarifications on the application of the proportionality principle in the context of the assessment of some specific sources of risks. The minimum engagement model also helps to structure the dialogue with institutions to assess the individual SREP elements and the overall SREP assessment.

7. The topic of the peer review was recommended by the EBA's Advisory Committee on Proportionality (ACP) and is timely in view of the current version of the Guidelines which is in effect since 1 January 2023 and which contains more elaborate proportionality provisions.

8. As proportionality applies throughout the SREP Guidelines, which in itself cover a wide area of risks and elements for assessment, the peer review concentrates on the main application of proportionality with particular scrutiny on the application of proportionality in the liquidity risk assessment. Hence the peer review focuses mainly on the following key areas:

- methodology applied by the CA ensures effective and proportional categorisation of institutions in accordance with the criteria set out in section 2.1.1 of the SREP Guidelines;
- frequency and intensity of the supervisory engagement and dialogue under the minimum engagement model is adequate;
- focus and granularity of supervisory assessments ensure effective and proportionate supervision of risks;
- methodology applied by the CA for the supervisory assessment of liquidity risk incorporates the principle of proportionality in accordance with the provisions set out in Title 8 of the SREP Guidelines;
- the practical application of proportionality in the assessment of liquidity risk under the SREP in accordance with sections 8.1 and 8.2 of the SREP Guidelines is effective.

## Methodology

9. The detailed methodology for peer reviews can be found on the EBA's website<sup>4</sup>, this section provides a short summary.

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<sup>4</sup>[https://www.eba.europa.eu/sites/default/files/document\\_library/930577/2020-04-28%20Methodology%20for%20the%20conduct%20of%20peer%20reviews.pdf](https://www.eba.europa.eu/sites/default/files/document_library/930577/2020-04-28%20Methodology%20for%20the%20conduct%20of%20peer%20reviews.pdf)



10. The peer review focused on 6 CAs (DE, ECB, FR, HU, LU, PL)<sup>5</sup> (list, see details in Annex 1) and was performed by a Peer Review Committee (PRC) of EBA staff and CA staff (see Annex 2 for the composition). The CAs have been selected on the basis of the following objective criteria:

- The amount and mixture of credit institutions operating in their jurisdiction warranting different supervisory approaches and engagement in accordance with the principle of proportionality;
- The presence of credit institutions with a variety of total asset sizes, complexity and business models, as highlighted by the data collected as part of the Cost of compliance project (Phase 1 Data collection).

11. The selection also took into account the request of FR/ACPR to be considered as part of the peer review, although it would have fit within the criteria nonetheless, and to ensure appropriate balance between Banking Union and non-Banking Union jurisdictions.

12. In terms of methodology, the peer review was performed by a Peer Review Committee (PRC) of EBA staff and CA staff (see Annex 2 for the composition) and which examined the practices of the CAs from the 6 Member States mentioned above (detailed in Annex 1).

13. The analysis was conducted based on responses from CAs to a self-assessment questionnaire (SAQ), which covered a one-year period from the application date of the current version of the SREP Guidelines (from 1 January 2023 until 31 December 2023) allowing for a full SREP cycle performed under the new framework.

14. The assessment has been conducted based on a number of supervisory benchmarks provided in more detail in section 0. To identify how CAs carry out supervision, and the extent to which their activities met the benchmarks, the PRC required CAs to complete a self-assessment questionnaire (SAQ), for a reference period from 1 January 2023 until 31 December 2023. The PRC received follow up through email correspondence with the CAs seeking further clarifications. In addition, the PRC also conducted interviews with all CAs.

15. The PRC subsequently assessed the CAs against the supervisory benchmarks formulating the key findings of the peer review. This report sets out those findings together with follow-up measures that CAs need to take, all of which are aimed at further strengthening consistency and effectiveness in supervisory outcomes across the EU. The report also identifies a number of best practices, the adoption of which might be of benefit for other CAs. As noted above, the actions taken by CAs in response to follow-up measures will be assessed in a follow-up report after two years and that review can be conducted on CAs that were not in scope of the initial report.

16. The conclusions of the peer review are set out in subsequent chapters of the report, focusing on the key findings and any resulting follow-up measures or good practices identified. The final chapter provides an overview of these findings and measures.

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<sup>5</sup> The CAs are subject to the peer review with regards to the institutions under their direct supervision.

## Benchmarking

17. For the purposes of this peer review, four benchmarks were identified, which were considered to reflect key objectives of the SREP Guidelines in terms of the expectations on CAs and their supervisory activities, as well as supervisory expectations. The PRC also developed the criteria that aimed to set out the key factors used in reaching a judgment on the effectiveness of supervision in achieving the benchmark.

18. The benchmarks are assessed on the following scale:

<b>Fully applied:</b> all assessment criteria are met without significant deficiencies	<b>FA</b>
<b>Largely applied:</b> some of the assessment criteria are met with some deficiencies, which do not raise any concerns about the overall effectiveness of the competent authority, and no material risks are left unaddressed	<b>LA</b>
<b>Partially applied:</b> some of the assessment criteria are met with deficiencies affecting the overall effectiveness of the competent authority, resulting in a situation where some material risks are left unaddressed	<b>PA</b>
<b>Not applied:</b> the assessment criteria are not met at all or to an important degree, resulting in a significant deficiency in the application of the provision	<b>NA</b>

19. The benchmarks and criteria are set out in Figure 1.

Figure 1 – Peer review benchmarks and criteria

Benchmark	Criteria
1 Proportionality in the SREP as set out in the SREP Guidelines is fully implemented (in CAs' methodology)	<ul style="list-style-type: none"> <li>▪ Compliance notification to EBA confirming compliance to the SREP Guidelines (with attention to partial compliance notifications stating non-compliance or partial compliance in view of proportionality provisions)</li> <li>▪ Proportionality is implemented as part of the SREP Guidelines</li> <li>▪ Proportionality provisions are fully incorporated in the CAs' methodology including provisions on: <ul style="list-style-type: none"> <li>a) Categorisation of institutions*</li> <li>b) Supervisory engagement model</li> <li>c) Focus on granularity of the assessment</li> </ul> </li> </ul> <p>*Also includes:</p> <ul style="list-style-type: none"> <li>• CAs' methodology includes sources used for categorisation of institutions (including supervisory reporting data and preliminary business model analysis)</li> </ul>

Benchmark	Criteria
	<ul style="list-style-type: none"> <li>• CAS' methodology foresees periodic review of SREP categorisation and review in case of significant corporate event</li> </ul>
<p><b>2</b></p> <p>The application of the proportionality and supervisory engagement as set out in section 2.4 of the SREP Guidelines is effective</p>	<ul style="list-style-type: none"> <li>▪ CA has specific practices in place to support the application of proportionality in the SREP</li> <li>▪ Institutions under CAS' remit are effectively categorised as SREP categories 1, 2, 3, 4 in line with SREP Guidelines</li> <li>▪ In practice, the frequency and intensity of the assessments and supervisory dialogue of the CA vary depending on the category of the institution</li> <li>▪ In practice, additional levels of engagement are determined by the CA (regardless of the categorisation) based on additional criteria</li> </ul>
<p><b>3</b></p> <p>Proportionality in assessment of liquidity risk is implemented (in CAS' methodology)</p>	<ul style="list-style-type: none"> <li>▪ Proportionality in liquidity risk assessment is implemented as part of the SREP Guidelines</li> <li>▪ Provisions in relation to liquidity risk assessment (including application of proportionality) are integrated in CAS' SREP methodology including: <ul style="list-style-type: none"> <li>a) Possible less granular intraday liquidity risk evaluation in view of lower materiality of this risk esp. for category 3 and 4 institutions</li> <li>b) Possible adapted liquidity stress testing (using fewer scenarios and applying lower granularity of the analysis) esp. for category 3 and 4 institutions</li> </ul> </li> </ul>
<p><b>4</b></p> <p>The practical application of proportionality in the assessment of liquidity risk under the SREP in accordance with the SREP Guidelines is effective</p>	<ul style="list-style-type: none"> <li>▪ Application is effective in: <ul style="list-style-type: none"> <li>a) Intraday liquidity risk assessment</li> <li>b) Liquidity stress testing</li> </ul> </li> <li>▪ Use of proportionality in the assessment of liquidity risk under SREP is documented by the CA</li> <li>▪ CA ensures consistent application of proportionality in the assessment of liquidity under the SREP</li> </ul>

20. Figure 2 summarises the PRC's assessment of the benchmarks.

Figure 2 – PRC's assessment of the peer review benchmarks

	DE	FR	HU	LU	PL	ECB
1. Proportionality in the SREP as set out in the SREP Guidelines is fully implemented (in CAs' methodology)	LA	LA	PA	LA	PA	LA
2. The application of the proportionality and supervisory engagement as set out in section 2.4 of the SREP Guidelines is effective	LA	LA	PA	LA	PA	LA
3. Proportionality in assessment of liquidity risk is implemented (in CAs' methodology)	LA	LA	LA	LA	LA	LA
4. The practical application of proportionality in the assessment of liquidity risk under the SREP in accordance with the SREP Guidelines is effective	LA	LA	LA	LA	LA	LA

## 2. Background information

21. Proportionality is a core element of the SREP Guidelines. The SREP Guidelines outline a minimum supervisory engagement model in section 2.4 of the Guidelines where the scope, frequency, and intensity of the assessments vary depending on the category of the institution. The Guidelines provide criteria for the categorisation of institutions in four categories according to their size, systemic importance, nature, risk profile and the extent of any cross-border activities ranging from category 1 encompassing the largest, systemically important institutions to category 4 capturing the small and non-complex institutions.
22. When looking at the market infrastructure in the jurisdictions under review the PRC found that the banking landscape under the direct supervision of each CA varies considerably in terms of size, complexity and business models of the institutions. While on the one hand the ECB is directly supervising only the largest European institutions within the Banking Union, other Banking Union-CAs are directly supervising medium-sized and smaller institutions<sup>6</sup>. Non-Banking Union authorities are supervising both smaller and larger institutions within their jurisdiction. Also, when it comes to the number of institutions active in the jurisdictions, differences can be observed. In some countries there is a high number of (smaller) institutions active (e.g. in DE where more than 1200 institutions are licensed), while in other countries this number is much lower and the market is composed of mainly larger institutions (e.g. in HU only 41 institutions are active).
23. These differences in market infrastructure translate into different distributions of the categorisation of institutions at the CAs under review. For instance, for the ECB, the institutions under their direct supervision fall under category 1 only. While in LU the CA has mainly category 3 institutions under its direct supervision. In contrast to HU which sees their market dominated by category 1 institutions (27 institutions), accounting for over 90% of the credit institutions' market on a total balance sheet basis. In PL 135 institutions accounting for 26% of their market fall under category 3 and 370 institutions accounting for 71% of their market in category 4. Please refer to section 4.2 for more details about the categorisation of institutions. In terms of business models, local and cross-border universal banks are largely concentrated in category 1, cooperative and savings banks are predominant in categories 3 and 4, with some cooperative, savings and local universal banks being categorised as category 2.

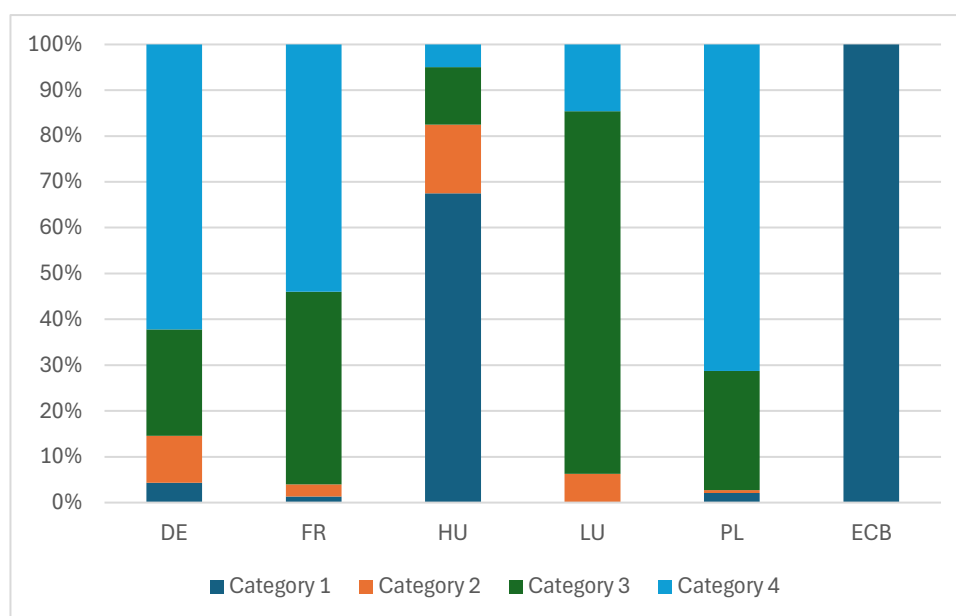
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<sup>6</sup> In line with its mandate under Council Regulation (EU) No 1024/2013 of 15 October 2013, the ECB is responsible for the direct supervision of the significant institutions, and the CAs of the participating Member States are responsible for the direct supervision of the less significant institutions. The criteria for the significance assessment include the size of the institution, its economic importance and the significance of its cross-border activities. The ECB maintains a [list](#) of all significant institutions and less significant institutions that is updated on a regular basis.

**Table 1: Number of institutions under direct supervision in different SREP categories**

Number of institutions under direct supervision in different SREP categories	DE	FR	HU	LU	PL	ECB
Category 1	54	1	27	0	11	113
Category 2	127	2	6	3	3	0
Category 3	289	32	5	38	135	0
Category 4	773	41	2	7	370	0

**Figure 3 – Percentage of directly supervised institutions per SREP category**



## 3. Organisational set-up and resources

### 3.1 Introduction

24. This chapter examines the CAs' internal organisation in the context of the SREP. It also provides an overview of the number and allocations of resources involved in the SREP of the CAs in the scope of this review, as well as the CAs' assessment of the adequacy of these resources.

### 3.2 Organisational set-up and resources

25. The organisational set up of the CAs under review differs between the CAs. In some jurisdictions multiple authorities are involved in the SREP, for example in DE, LU and the ECB, the latter working in strong cooperation with the NCAs. Within the CAs, each CA has its own set-up determined by institutional and country-specific elements which can be partly contributed to the different market infrastructures as set out section 2 of this report. Regarding the cooperation with different departments and authorities, a mixed approach can be observed. In some cases, explicit procedures or agreements have been set up (DE, HU, LU, PL, ECB), while in other cases this is not (yet) formalised (FR).

26. These practices are summarized in the following paragraphs:

- In DE, both the Deutsche Bundesbank and BaFin are responsible for the supervision of LSIs. The Bundesbank is responsible for the ongoing supervision (among which: evaluating the documents submitted by institutions, and based on this, assessment of current and potential risks, as well as on-site inspections. BaFin is officially the competent authority of DE and is responsible for making final assessments and taking (legal) decisions to specific institutions or directed to the whole sector, among which is the issuing of the SREP decisions. The exact distribution of tasks is set out in the German Banking Act. Guidelines and IT tools to be used in supervision are developed in close consultation between the two authorities. When taking the SREP decisions, multiple departments of BaFin are involved. The supervisory units are in the lead and there is a constant exchange with the other relevant units, such as the policy units and the legal department. The policy units are coordinating with the AML units.
- In FR, dedicated off-site LSI supervisors of ACPR are responsible for the SREP assessment and the application of proportionality. Horizontal experts from other teams are consulted and engaged with, should specific expertise and information on risk areas be required. Data experts prepare specific benchmarking tools (e.g. providing an overview of the main KRIs per institution) which can be used by the off-site LSI supervisors in preparing the SREP decisions. No formal service agreement between the ACPR departments working on the SREP and application of proportionality is in place and but senior management ensures that cooperation and synergies between units are in place.

- In HU, the SREP is based upon cooperation between the off-site supervision department (responsible for day-to-day supervision), the onsite supervision department (responsible for conducting on-site inspections) and the financial modelling department (responsible for conducting the ICAAP and ILAAP review) at the Central Bank (MNB). Other specialised departments contribute to the SREP as well (e.g. the AML and IT security departments). Procedures have been set up to provide a framework for the joint work performed, for the management of information and on risks arising from ongoing supervision.
- In LU, the CA responsible for the SREP is the CSSF. Considering that, the Luxembourg Central Bank (BCL) has a mandate on liquidity with regard to the general liquidity situation in the local market and the evaluation of market operators in this regard. CSSF and BCL cooperate for the liquidity supervision. Although the CSSF has the ultimate responsibility for the supervision of LSIs, BCL is carrying out liquidity supervision and prepares the individual liquidity SREPs for a subset of institutions<sup>7</sup>. Both authorities use a common methodology and IT tool for the SREP. The cooperation between the two authorities is currently based on practical arrangements, which were in the course of formalisation at the time of the peer review and are now formalised in a Memorandum of Understanding (MoU). CSSF supervisory departments are conducting the SREP, but information from horizontal divisions are also included in the assessment (e.g. AML/CFT, policy and macroprudential aspects, IT risks and remuneration).
- In PL, the SREP process is carried out by two main analytical departments at the KNF, supported by the on-site inspection department. A formal cooperation procedure is in place which sets out the principles of cooperation. Specialised departments such as the AML department and the department analysing the activities in the area of bank assurances, contribute to the SREP. In determining the SREP scores, the input of the other departments is taken into account. The units contributing are also invited to the panel meetings summarizing the SREP process in a given year. In addition, analytical departments participate in planning on-site inspection activities for the next cycle using their knowledge of the risk profile of the banks.
- The ECB, as direct supervisor of Significant Institutions (SIs) performs its tasks in close cooperation with the NCAs responsible for supervising the Less Significant Institutions (LSIs). The ECB has a horizontal division that is responsible for the drafting of the SREP methodology. To execute this methodology, Joint Supervisory Teams (JSTs) have been established. The JSTs are composed of ECB and NCA staff. Horizontal units (supported by NCA staff) are involved in the SREP as well, depending on the specific expertise needed. Also involved in the SREP is the second line of defence department, with the aim to ensure consistency. There is an organisational framework in place to support the collaboration between the different parts of the ECB.

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<sup>7</sup> The distribution of banks is formally agreed between the CSSF and the BCL. For banks whose monitoring is performed by the BCL, the BCL prepares the liquidity SREP assessment, which is discussed and agreed with the CSSF, and then integrated by the CSSF in the overall SREP of the institution.



27. The human resources available for the SREP assessment differ significantly across the CAs under review. Obviously, the number and size of the supervised institutions also differs a lot between the CAs, as well as their organisational set-up of supervision. The average number of supervisors per institution expressed in full-time equivalents (FTEs) is the highest for the ECB that is supervising category 1 institutions. On the other hand, the average number of supervisors per institution expressed in FTEs is the lowest for both Poland and France, the authorities with the highest proportion of category 3 and 4 institutions under their direct supervision.
28. Only HU reported their resources considered to be 'adequate'. The other CAs under review assessed their resources as 'mostly adequate'.

## Conclusions

29. With regard to the organisation set up and resources the PRC found that the organisational set up is different for all CAs, but that in general dedicated teams exist for day-to-day supervision and that input is provided from more specialised departments during the SREP (e.g. IT and AML).
30. With regard to the cooperation among the different departments within CAs and authorities, the PRC found that the cooperation is well organised. In some cases, explicit procedures or agreements have been set up, while in other cases this is not formalised. On the resources available for the SREP, differences are observed, which can partially be explained by the number and size of institutions under the remit of CAs and their organisational set-up for supervision. Some CAs also ensure flexibility of their resources in the planning in order to allow for dealing with unforeseen events and crisis situations. The resources are considered (mostly) adequate by the CAs.

## 4. Peer review findings

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### 4.1 General information

31. This chapter presents the main findings of the peer review against the benchmarks as described in section 3 of this report. Each section sets out the main findings in relation to each CA for each supervisory benchmark. This is followed by the PRC's assessment of the CAs practices, and any follow-up measures and good practices identified.

### 4.2 Implementation of Proportionality in the SREP as set out in the SREP Guidelines

#### Introduction

32. This section assesses the extent to which the SREP Guidelines were implemented in each jurisdiction, in particular with regard to the categorisation of institutions as set out in section 2.1.1 of the SREP Guidelines and the implementation of the proportionality aspects as set out in Section 2.4. This section focuses on the implementation of the general proportionality provisions into the CAs' methodologies, and section 4.3 focuses on the practical application of the general proportionality provisions by the CAs under review.

33. The criteria used to assess this section were:

- Compliance notification to the EBA confirming compliance to the SREP Guidelines (with attention to partial notification compliance stating non-compliance in view of proportionality provisions) in combination with responses SAQ questions on incorporation of SREP Guidelines and proportionality provisions into CAs' methodology.
- CAs methodology to incorporate provisions on (1) categorisation of institutions, including the sources used to categorise institutions and the update of the categorisation, (2) supervisory engagement, and (3) focus and granularity of the assessment.

#### Main findings

##### Compliance notification SREP Guidelines

34. The PRC examined the Compliance notifications to the EBA as published in the compliance table<sup>8</sup> and found that, at the time of the notifications, all CAs under review declared to either be

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<sup>8</sup> The compliance table of the SREP Guidelines, based on the feedback received from CAs is available on the EBA website: <https://www.eba.europa.eu/activities/single-rulebook/regulatory-activities/supervisory-review-and-evaluation-process-srep-4>

compliant with the SREP Guidelines (DE, FR, HU, LU) or intending to comply with the SREP Guidelines by their application date (PL, ECB).

35. In response to the SAQ, most CAs under review (FR, DE, LU, PL) responded that the SREP Guidelines, including the proportionality provisions, are fully incorporated into their methodology. Two CAs (HU, ECB) stated that the SREP Guidelines and their proportionality provisions are partially incorporated into the CAs' methodology.

## Implementation of the SREP Guidelines provisions on proportionality

### *Dedicated methodology for categorisation*

36. According to paragraph 17 of the SREP Guidelines, CAs should categorise all institutions under their remit into four categories according to their size, systemic importance, nature, risk profile and the extent of any cross-border activities. The categories range from category 1 with the largest, most complex institutions category 4 with the smaller, less complex institutions. The categorisation also makes the link with the CRR definitions of 'large' and 'small and non-complex institutions' to ensure consistency across the Pillars. This categorisation is relevant, as it drives the application of proportionality and supervisory engagement under the SREP Guidelines.

37. When examining the methodologies used for the categorisations by the CAs under review, the PRC noted that although the same principles are applied, all authorities under review have implemented their own version of the categorisation. CAs use their own categorisation in their day-to-day supervision, though generally the categories can be linked ex post with the ones under the SREP Guidelines.

- For HU, the methodology excludes certain types of institutions from category 4 (e.g. entities with a banking license). The classification is based on the impact of institutions and the link with the categories under the SREP Guidelines is not straightforward.

38. The ECB has classified all institutions under their remit as category 1 institutions, based on the CRR definition of Large Institutions. Within category 1, the ECB Banking Supervision has developed a criterion for proportionate and risk-based supervisory engagement: size and institution's complexity are taken into account and institutions are grouped into different clusters of category 1 banks. The ECB categorises all subsidiaries of category 1 institutions under its supervisory remit in the same category as their parent (category 1).

39. In DE, the actual categorisation is based on a matrix considering both the SREP score (representing the risk of the institution) and the Impact Dimension. The Impact Dimension is depending on the business model of the institution, the total assets, the ECB-classification and the CRR-classification.

40. PL considers a classification primarily stemming from the business model classification (thus in line with the supervisory internal organisation), partly stemming from size indications and partly stemming from the risk classification. In the methodology also substitutability and separability are taken into account. Subsidiaries are categorised in the same category as their parent. The

categorization does not take into account the CRR classification although it is planned to be included as part of the criteria for the categorisation in the next revision of the methodology.

41. In LU and FR the ECB LSI classification is used categorising credit institutions according to their risk and impact level considering the size of the institution, its importance to the economy, any cross-border activities, and its business model. For the high-risk category of institutions under 'enhanced supervision' a combination of criteria is used from the ECB LSI classification methodology and additional local criteria. For LU the criteria include: SREP results of the previous year, results of annual stress testing, systemic risk, and ML/TF risk level.

42. A challenge reported by some CAs (FR) is the necessity to collect some of the data required for the CRR categorisation of 'large' and 'small and non-complex institutions' on an ad hoc basis as they do not form part of the regulatory reporting data.

### Sources used for categorisation

43. With regard to the sources used to determine the SREP categorisations, paragraph 19 of the SREP Guidelines provides that CAs should use both supervisory reporting data and information from preliminary business model analysis.

44. The PRC found that all CAs use supervisory reporting data and five CAs use information from the preliminary business model analysis (DE, FR, LU, PL, and ECB).

- The HU classification does not use results from the preliminary business model analysis and is mainly based on the size, market share and interconnectedness, and systemic risk of the institutions.

45. Paragraph 17 of the SREP Guidelines provides that the CRR classifications of 'large' and 'small and non-complex' institutions should be used for the categorisation of institutions to ensure consistency across the pillars. All 'small and non-complex' institutions should be categorised as category 4.

46. The PRC found that four CAs use the CRR classifications for the purpose of the categorisation of institutions (DE, FR, LU, and ECB).

- HU and PL do not use the CRR classifications for the purpose of the categorisation of institutions. For HU, this is currently under consideration, and for PL it is planned to be included in the next revision of the methodology. For PL, the vast majority of cooperative banks can be considered as 'small and non-complex' institutions and all cooperative banks classified as 'small and non-complex' institutions are de facto classified as SREP categories 3 and 4.

47. Three CAs (FR, HU and LU) reported using additional sources of information such as results of stress tests, SREP results and the ML/TF risk level (using AML scores). In some cases, ad hoc data are requested to the supervised institutions to perform the categorisation.

Figure 4 - Sources used to determine SREP categorisation

Sources used to determine SREP categorisation	DE	FR	HU	LU	PL	ECB
Supervisory reporting data						
Information from preliminary business model analysis						
CRR 'large' and 'small and non-complex institutions'						
Other						

48.The information collected is aggregated to perform the categorisation. Some CAs use IT tools in this process (HU, DE), or have an automated process in place for the categorisation of institutions with a possibility to override by expert judgment (PL).

#### *Review of the categorisation*

49.According to paragraph 19 of the SREP Guidelines, CAs should either periodically review the categorisation or review the categorisation in the event of a significant corporate event.

50.The PRC found that all CAs under review are reviewing the categorisation on an annual basis.

51.In addition to the annual review, most CAs (FR, DE, LU, HU, ECB) update the categorisation on an ad hoc basis where needed in case of corporate events (e.g. large divestment or merger) either by changing the score directly, or by changing its resulting supervisory engagement and changing the score in the next annual update.

- PL does not foresee ad hoc updates of the SREP categorisation within the SREP cycle though the case did not occur yet that an ad hoc event would have required a change in categorisation on their side.

#### *Implementation SREP Guidelines provisions on supervisory engagement*

52.The categorisation of institutions should drive the frequency and intensity of the supervisory engagement under the minimum engagement model as set out in section 2.4 of the SREP Guidelines.

53.The PRC found that the CAs under review incorporated the supervisory engagement model as set out in the SREP Guidelines in their methodologies to a large extent. Several authorities reported going beyond the minimum engagement model in terms of additional levels of engagement, or additional areas for which the minimum engagement is used (e.g. DE includes also frequency for inspections and interactions with external auditors, HU includes also the

procedure used for the ICAAP review (comprehensive, focused or simplified)<sup>9</sup>), or by extending the matrix used to determine the minimum engagement (e.g. PL includes also the overall SREP score to determine the level of engagement).

54. Two authorities did not fully incorporate the engagement model set out in the SREP Guidelines into their methodology. In particular there is a difference as regards to minimum frequency of engagement expected between the CA and the institutions' management body and senior management. Section 2.4.5 of the SREP Guidelines provides for an ongoing engagement for category 1 and 2 institutions, a risk-based engagement for category 3 institutions and an engagement at least every three years for category 4 institutions.
55. HU has a different approach with the methodology providing for an annual SREP CEO meeting for category 1 and 2 institutions and no SREP CEO meeting for category 3 and 4 institutions.
56. PL has a different approach with the methodology providing for meetings with the institution's management body and senior management for category 4 institutions for which there is no minimum frequency but where meetings are organised where necessary to assess the material risk elements or clarify doubts (risk-based engagement).

#### Implementation SREP Guidelines provisions on focus and granularity of assessment

57. In accordance with paragraph 59 of the SREP Guidelines, CAs should determine the focus and granularity of the SREP assessment taking into account the risk profile of the institution, the materiality of the different risks and any changes thereof.
58. The PRC found that all CAs under review have implemented into their methodology the possibility to adapt the focus and granularity of the SREP assessment according to the risk profile of the institution.
59. In DE the proportionality principle is not just reflected in the frequency, scope and granularity of the supervisory assessments, but also in the supervisory expectations towards institutions. In this respect BaFin applies a so-called principle of 'dual proportionality'. Regardless of their classification, institutions with more complex or risky business activities are expected to meet a higher level of risk management for these activities, and more simple risk management methodologies and processes are tolerated for non-complex, low-risk business activities of limited size. These supervisory expectations are clearly communicated to institutions<sup>10</sup> and BaFin maintains an ongoing dialogue with the industry as regards to their application.
60. A challenge faced by ECB is the applicability of the provisions on adapting the focus and granularity of the assessment (as set out in section 2.4.6 of the SREP Guidelines) for category 1 institutions which is a reason for ECB not to fully apply section 2.4.6 to the category 1 institutions.

<sup>9</sup> The categorisation of institutions according in HU influences a number of supervisory decision points such as the amount of fines. For this a so-called 'penalty matrix' excel tool is used that adapts the amount of the fine to be imposed according to the impact classification of the institution.

<sup>10</sup> DE publishes guidance for institutions on supervisory expectations for every risk.

## Assessment

61. The PRC found that all CAs under review use a dedicated methodology for the categorisation of institutions under their remit. The classification of institutions is mostly based on a mix of supervisory reporting data and business model classification, complemented for some CAs by other sources. For most CAs, this methodology is largely in line with the SREP Guidelines. For HU and PL, there are some shortcomings when their own methodology is compared to the Guidelines:

- In HU, the CRR classification is not considered in the methodology for the purposes of categorisation of institutions for SREP purposes, nor is it possible for institutions with a banking license to enter into category 4. Also, HU is not using the preliminary business model analysis as a source of information.
- In PL, the CRR classification is not considered in the methodology for the purposes of categorisation of institutions for SREP purposes, although it is planned to be included as part of the criteria for the categorisation in the next revision of the methodology, and the methodology does not provide for ad hoc updates of the SREP categorisation within the SREP cycle. PL informed the PRC that currently de facto all cooperative banks identified as ‘small and non-complex’ institutions under CRR are in SREP categories 3 and 4 where in accordance with paragraph 17 of the SREP Guidelines all ‘small and non-complex’ institutions under CRR should be classified as SREP category 4. Under the planned revised methodology, the categorisation would be brought in line with the SREP Guidelines due to the addition of the CRR classification as input for the SREP categorisation.

62. All CAs have a process in place to re-execute classification on a yearly basis. Ad-hoc reclassification (e.g., in the case of M&As) can occur in all the analysed practices with the exception of PL for which changes in the structure of the supervised entities are taken in consideration in the yearly update process and with the exception of the ECB (whose supervised institutions are SREP Guidelines Category 1 by definition).

63. In general, all CAs under review implemented the supervisory engagement model with the categorisation of institutions driving the frequency and intensity of the supervisory engagement. Most CAs went beyond the provisions set out in section 2.4 of the SREP Guidelines determining additional areas of minimum engagement. For HU and PL there is a different implementation for one of the areas:

- HU has a different approach with the methodology providing for an annual SREP CEO meeting for category 1 and 2 institutions and no SREP CEO meeting for category 3 and 4 institutions.
- PL has a different approach with the methodology providing for risk-based engagement with the institutions’ management body and senior management where necessary to assess material risk elements or clarify doubts for category 4 institutions. In accordance with paragraph 53 of the SREP Guidelines CAs should have engagement and dialogue

with the institution's management body and senior management for category 4 institutions at least every three years.

64. In general, all CAs under review implemented the provisions on the focus and granularity of the SREP assessment although ECB mentioned a challenge on the applicability of these provisions to category 1 institutions.

65. Based on the previous paragraphs, the PRC concludes that DE, FR, LU and the ECB largely implemented the proportionality provisions of the SREP Guidelines in their methodologies as there is a lack of consistency as sought by the Guidelines though not affecting the overall effectiveness. HU and PL partially implemented them.

66. The PRC therefore assessed the CAs' application of this benchmark as follows:

	DE	FR	HU	LU	PL	ECB
<b>1. Proportionality provisions SREP Guidelines implemented in CAs' methodology</b>	LA	LA	PA	LA	PA	LA

67. The PRC considers that the following follow-up measures should be implemented:

#### Follow-up measures for CAs

*Note: Measures included below are addressed to all CAs and not just those CAs that were included in the initial review.*

- All CAs should ensure to categorise all institutions under their supervisory remit on an individual (entity) basis for SREP purposes in accordance with the SREP Guidelines<sup>11</sup>.
- All CAs should incorporate the CRR classifications (of 'small and non-complex' and 'large' institutions) into the criteria for the categorisation of institutions in accordance with paragraph 17 of the SREP Guidelines.
- All CAs should incorporate the use information from the preliminary business model analysis into the input used for the categorisation of institutions in accordance with paragraph 19 of the SREP Guidelines.
- All CAs should foresee in their methodology the possibility to update the categorisation of an institution on an ad hoc basis where needed (e.g. following a significant corporate event) in accordance with paragraph 19 of the SREP Guidelines.

<sup>11</sup> The categorisation of the institutions on an individual basis is required under the SREP Guidelines to ensure a level playing field. Whereas under the minimum engagement model this could result in lower minimum assessment frequencies for different entities of the same banking group depending on their categorisation, this should not lead to issues for the annual group risk assessment and joint decision process for cross-border banking groups as the output can be used as available under the existing assessment.



- All CAs should align their methodology on the minimum frequency for meetings with the institutions' management body and senior management to the minimum engagement model as set out in section 2.4 of the SREP Guidelines.

#### Recommendation to the EBA

- In order to ensure that the focus of SREP is placed on the most material risks, the PRC recommends that, as part of any future review of its SREP Guidelines, the EBA provides more clarity that CAs can adapt the focus and granularity of the SREP assessment depending on the risk profile regardless of the category of the institution within the frequency assessment as set out in the minimum supervisory engagement model.

68. The PRC identified the following good practices:

- DE communicates supervisory expectations towards institutions on the minimum requirements for the risk management of all risks that are adapted to the level of complexity and riskiness of their activities.

## 4.3 The application of the proportionality and supervisory engagement

### Introduction

69. This section provides an overview of the assessment of the effectiveness of the application of the proportionality and the supervisory engagement as set out in section 2.4 of the SREP Guidelines by the CAs under review.

70. The assessment examines the practices to support the application of proportionality in the SREP and the practical application of the supervisory engagement model, including the determination of additional levels of engagement based on additional criteria.

### Main findings

#### Practices to support the application of proportionality in SREP

71. The PRC found that all CAs have specific practices in place to support the application of proportionality in SREP. Examples of these specific practices are:

- *Methodology/manuals:* All CAs under review make use of dedicated methodologies/manuals to facilitate the application of proportionality in the SREP in on-site and off-site supervision.
- *Training:* All CAs under review except for HU and PL provide specific training to supervisory staff on the topic of proportionality, either separately or as part of other trainings (including trainings on risk methodologies).

- *IT solutions:* All CAs under review except for HU report making use of IT solutions to facilitate the application of proportionality in the SREP (including tools used by DE, PL, and HU to support classification of institutions).

#### Institutions effectively categorised as SREP categories 1, 2, 3, 4

72.As detailed in section 4.2, the CAs under review adopted different methodologies to categorise institutions for SREP purposes. The PRC found, when analysing the methodologies used by CAs, that all CAs primarily use their own methodology for day-to-day supervision and decision-making. Most CAs are able to map the categories under their own methodology to the SREP Guidelines categorisation *ex post*, while this is more difficult for authorities which have not fully implemented the SREP Guidelines part on the categorisation (HU, PL).

#### Practical application of supervisory engagement model

73.Section 2.4 of the SREP Guidelines sets out a supervisory engagement model where the minimum frequency and intensity of the supervisory engagement is driven by the categorisation of the institutions. The methodology leaves CAs room for determining additional levels of engagement based on the risks and vulnerabilities of the institution.

74.The PRC found that in practice for all CAs the frequency and intensity of the assessments and supervisory dialogue vary depending on the category of the institution. Only for the ECB there is in practice no impact on the frequency of the overall SREP assessment, as all institutions under their supervisory remit are category 1 institutions.

75.The PRC found that in practice for all CAs additional levels of engagement are determined regardless of the categorisation based on additional criteria including criteria related to AML, and customer complaints. Supervision is also intensified in certain circumstances such as corporate events (mergers/acquisitions) or crisis events (e.g. following the SVB failure). The additional level of engagement can consist of a higher frequency of assessment or a more intensified supervision. This can result in increased on-site inspections, additional reporting obligations, more extensive review of quarterly reporting and/or use of more advanced risk indicators, additional reviews of the institution's operational, strategic, or business plans, thematic reviews for specific risks, or additional meetings with institutions' representatives or external auditors.

76.For example, the ECB is using another system to distinguish between category 1 institutions in through the definition of the risk tolerance, determined by the 'top-down' priorities and the 'bottom-up' bank specificities. A multi-year approach is used: although the SREP update still will be performed annually, the subcategories specified for every SREP element are assessed on a multi-year time horizon. Subcategories are based on the bank's size, the supervisors planning and the relevance of the topic for the supervised institution.

77.A challenge faced by some CAs (FR, DE, LU) is the need for further flexibility for category 3 and 4 institutions, in particular, as regards to the minimum frequency for the assessment of all SREP elements as set out in section 2.4.5 of the SREP Guidelines as the current minimum frequency

is challenging especially for authorities having to assess a high number of category 3 and 4 institutions. Furthermore the 3-year frequency for the assessment of all SREP elements is not always considered to be in line with the risk profile of the institutions.

### **Tailored methodologies and clustering of institutions**

78.The PRC found that the CAs under review do not use the possibility provided by paragraph 54 of the SREP Guidelines to conduct thematic SREP assessments on multiple institutions as a single assessment (e.g. a BMA for small mortgage lenders with the same business model) ('clustering').

79.The PRC found that the CAs under review also do not use the possibility provided by Article 97(4a) of the CRD (as referenced in paragraph 54 of the SREP Guidelines) allowing CAs to use tailored methodologies in the SREP for institutions with similar risk profiles.

80.CAs reported the reason for not making use of thematic SREP assessments on multiple institutions as a single assessment is the diverse range of business models and risk profiles. There can be also domestic legal concerns around the use of outcomes of thematic reviews as a whole for setting Pillar 2 capital add-ons for individual institutions. The reason reported for not making use of clustering is the insufficient number of homogenous institutions. Though CAs do report supplementing individual assessments with horizontal reviews and grouping institutions with similar business models or with the same country of origin within the same supervisory teams to create synergies and enhance a level playing field.

### **Documentation of application of proportionality**

81.The PRC found that all CAs document the application of proportionality, mainly through the use of IT tools that create historical data (such as IMAS used by ECB, FR, LU, DE). In addition, there can be documentation obligations in place (DE).

### **Tools to ensure consistent application of proportionality**

82.The PRC found that all CAs have tools in place to ensure the consistent application of proportionality. IT tools are being used with embedded levels of granularity for the assessment and for adapted sets of self-assessment questionnaires for institutions depending on their categorisation, risk profile and engagement level (IMAS, PL tool). IT tools such as the ECB's IMAS system also provide for judgment and proportionality applied to be justified and documented. IT tools are also used to create alerts when there is a deviation from the methodology (IMAS – FR, LU).

83.Also monitoring and review by management or by horizontal methodology divisions (LU, ECB) are used to ensure consistency in the implementation of proportionality and in the application of supervisory judgment across institutions (FR).

### **Assessment**

84.The PRC found in general all CAs under review largely applied the proportionality and supervisory engagement as set out in section 2.4 of the SREP Guidelines in practice besides the

categorisation of institutions, for which CAs use their own methodologies. As explained in section 4.2, most CAs are able to map their categorisation to the categories set out in the SREP Guidelines *ex post*, although this is more difficult for HU and PL.

85. All CAs under review have specific initiatives in place to support the application of proportionality in the SREP, although HU and PL do not report providing specific training to supervisory staff on the topic of proportionality, either separately or as part of other trainings.

86. For the assessment, the PRC has also taken into account the examples provided by the CAs under review of actual supervisory cases of how the supervisory engagement model is applied and of cases where an additional level of engagement was determined regardless of the categorisation of the institution. Also, the points of attention as regards to the alignment of the methodology for the SREP categorisation and minimum supervisory engagement as set out in the previous section led to the assessment of the application by HU and PL as ‘partially applied’ rather than ‘largely applied’.

87. The PRC therefore assessed the CAs’ application of this benchmark as follows:

	DE	FR	HU	LU	PL	ECB
<b>2. The application of the proportionality and supervisory engagement as set out in section 2.4 of the SREP Guidelines is effective</b>	LA	LA	PA	LA	PA	LA

88. The PRC considers that the following follow-up measures should be implemented:

#### Follow-up measures for CAs

*Note: Measures included below are addressed to all CAs and not just those CAs that were included in the initial review.*

- All CAs should ensure to be able to match the categorisation of institutions used for SREP purposes to the categories as set out in the SREP Guidelines in order to facilitate the communication and cooperation for cross-border entities, in particular in the context of colleges of supervisors and joint decision making.
- All CAs should provide specific training to supervisory staff on the topic of proportionality, either separately or as part of other trainings (e.g. supervisory trainings, or trainings on risk assessment).
- All CAs should consider the use of clustering as provided for in paragraph 54 of the SREP Guidelines to drive efficiencies in the application of proportionality in the SREP.

#### Recommendation to the EBA

- In order to allow for further proportionality and the efficient use of supervisory resources, the PRC recommends that, as part of any future review of its SREP Guidelines, the EBA should look

at the implication of the minimum frequency set out in the engagement model and consider whether more clarity would be needed on the scope and level of assessment to be performed.

89.The PRC identified the following good practices:

- The PRC considers the use of benchmarking tools to be a good practice. FR created a tool to provide offsite supervisors with an overview of the main KRIs for the French LSIs including the possibility to select them according to their business model.
- When conducting on-site inspections PL verifies the quality, accuracy and reliability of the answers provided by the institution to the self-assessment questionnaire related to the risk area in scope of the inspection as provided in the previous SREP cycle through spot checks. It is important to verify if the information provided is consistent with the actual situation as self-assessment questionnaires form a main source of information under the SREP for several CAs.

## 4.4 Proportionality in assessment of liquidity risk

### Introduction

90.This section focuses on the implementation of the provisions of the SREP Guidelines on proportionality in the liquidity risk assessment under the SREP from a methodological perspective. As the SREP Guidelines provide flexibility to CAs on how to apply the proportionality provisions in the assessment of liquidity risk, the PRC focused on the supervisory expectations as set out in the benchmark with regards to the application of proportionality in the liquidity risk assessment from a methodological perspective (as elaborated in this section), and from a practical perspective (as set out in section 4.5).

### Main findings

#### Implementation provisions on proportionality in liquidity risk assessment

91.All CAs under review apply the minimum engagement level for the SREP assessment also to the assessment of liquidity risk under SREP. All CAs under review foresee that the frequency and granularity of the liquidity risk assessment can be adapted according to their categorisation and liquidity risk profile. In applying proportionality PL can opt to provide less granular scores and use a joint assessment and score for liquidity and financing risk which is calculated based on the individual scores for each risk applying a weighting. HU uses three additional categories for the ILAAP review (comprehensive/focused/simplified) according to the size and interconnectedness of the institution and its inherent risk and risk control score and outcomes of monitoring of key indicators.

92.The liquidity risk profile is monitored by all CAs under review through a range of supervisory activities including the monitoring of key risk indicators, and the assessment of supervisory reporting. The level of proportionality is embedded in the level of granularity of the liquidity risk

assessment with the assessment of the different subcategories of liquidity risk depending on their materiality to the institution.

93. Besides the areas of intraday liquidity risk and liquidity stress testing that are further detailed in the subsections below, there are further differences between the CAs under review in the areas in which proportionality is applied. All CAs under review apply proportionality in the assessment of the ILAAP. Several CAs apply proportionality in the assessment of the funding plans (FR, DE, LU, PL) and of the institution's indicators regarding the liquidity and funding position (FR, DE, LU, PL). ECB applies proportionality in the ILAAP assessment and in the assessment of liquidity risk in general though there are no detailed instructions for the application of proportionality for category 1 institutions. The methodology for liquidity risk assessment is currently under review. Other areas in which CAs apply proportionality in the liquidity assessment are outlined in figure 5 below.

Figure 5 – Areas of liquidity assessment in which proportionality is applied

Areas of liquidity assessment in which CAs apply proportionality	DE	FR	HU	LU	PL	ECB
Evaluation of liquidity needs in the short and medium term						
Evaluation of intraday liquidity risk						
Evaluation of liquidity buffer and counterbalancing capacity						
Supervisory liquidity stress testing						
Assessment of ILAAP						
Assessment of the funding plan						
Assessment of institution's indicators regarding the liquidity and funding position						
Other						

94. There are differences in terms of the scope of institutions for which the CAs under review apply proportionality in the liquidity risk assessment<sup>12</sup>. FR, DE, and LU apply proportionality in liquidity risk assessment to category 2, 3, and 4 institutions. PL applies proportionality in the liquidity risk assessment under the SREP to category 3 and category 4 institutions with a low liquidity risk profile. HU uses its own system with three categories for the liquidity SREP process linked to the approach taken (comprehensive/focused/simplified)<sup>13</sup> which cuts across all categories of institutions. ECB has in scope category 1 institutions since those are the only ones under its direct supervision.

<sup>12</sup> In particular for the CAs within the Banking Union, this is also driven by the categories of institutions the CA has under its direct supervision.

<sup>13</sup> The approach taken to the ILAAP reviews (comprehensive/focused/simplified) is based on the size and interconnectedness of the institution, the inherent risk and risk control score from the previous assessment (combined with information from the monitoring of key indicators and other findings and observations (from previous inspections)), and the time since the last comprehensive examination was carried out.

95. Challenges faced by one CA (FR) are the fact that liquidity risk can materialise in the very short term and can affect any bank regardless of its size. Addressing liquidity risk implies flexibility in the assessment and responses and continuous monitoring is key. Furthermore, the application of proportionality needs to remain under scrutiny and potentially adapted at short notice. Furthermore, it is important to allow room for staff reallocation in case of unforeseen events and to maintain sufficient flexibility in the methodology to allow for such reallocation.

#### Implementation provisions on proportionality for assessment of intraday liquidity risk

96. CAs should assess the institution's exposure to intraday liquidity risk and may perform a less granular intraday liquidity risk evaluation where this is justified by lower materiality of this risk, especially for category 3 and 4 institutions<sup>14</sup>.

97. Half of the CAs under review (FR, DE, LU) reported applying proportionality in the assessment of intraday liquidity risk. The other half of the CAs (HU, PL, ECB) do not apply proportionality in the assessment of intraday liquidity risk.

- HU does not apply proportionality in this area in view of the importance of day-to-day liquidity monitoring across all institutions, regardless of their size or risk profile and the need to safeguard the stability of the financial system.
- PL does not apply proportionality in this area in view of the smaller banks being more exposed to liquidity problems, although this may be considered in future.
- ECB does not apply proportionality in this area in view having category 1 institutions under its direct supervision.
- FR assesses the materiality to intraday liquidity risk using criteria such as the business model, the level of the LCR, the composition of the liquidity buffer, the structure of the balance sheet. FR also adapts the level/granularity of information requested and the frequency of the reporting according to the materiality of the intraday liquidity risk, as well as the frequency of the reporting. More granular information is requested for institutions where the materiality of intraday liquidity risk is considered high, with the possibility of implementing ad hoc reporting on a daily or weekly basis to assess for example the evolution, the composition of the inflows, the outflows and the HQLA on a daily basis.
- DE assesses the level of materiality of intraday liquidity risk based on the ILAAP assessment and focuses the assessment of intraday liquidity risk, in particular, on institutions which are materially exposed to RTGS payment systems and that are active in payment or trading activities with a more in-depth assessment for institutions with higher risks in this area. If intraday liquidity is assessed as non-material, the risk does not play a major role in the liquidity risk assessment under the SREP.

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<sup>14</sup> Paragraphs 459, 460 and 464 of the SREP Guidelines

- LU assesses the level of materiality of intraday liquidity risk in relation to its potential impact on the economic viability of the bank based on information provided in the ILAAP, and using an indicator based on the number and volume of daily payments of the institution (in absolute value and related to its balance sheet size). The granularity of the assessment is based on the materiality of the risk.

### Implementation provisions on proportionality in liquidity stress testing

98. Under the SREP Guidelines<sup>15</sup>, CAs should use supervisory liquidity stress tests as an independent tool to assess short- and medium-term liquidity risks. The Guidelines<sup>16</sup> provide that CAs may perform less granular liquidity stress testing and use fewer scenarios where this is justified by lower materiality of this source of risk, especially for category 3 and 4 institutions.

99. Half of the CAs under review (DE, FR, HU) do not perform supervisory liquidity stress testing on all institutions under their supervisory remit. Only ECB, LU and PL perform supervisory liquidity stress testing on all institutions under their supervisory remit.

100. Three of the CAs under review (FR, LU, PL) reported applying proportionality in their supervisory liquidity stress testing. The other CAs (DE, HU, ECB) do not apply proportionality in their supervisory liquidity stress testing.

- DE does not carry out supervisory liquidity stress testing for the institutions under its direct supervision as the overall liquidity position of these institutions has not been a subject of material supervisory concern so far<sup>17</sup>. DE is planning to implement a centralized and fully automated form of liquidity stress testing, and the PRC encourages that this is implemented.
- HU requires quarterly calculations from category 1 and 2 institutions for the supervisory liquidity stress test based on a common methodology and main assumptions. HU is currently revising its liquidity stress test methodology and plans to use data deriving from the standard supervisory data reporting, allowing it to perform its own calculation and making the results more comparable and easier to calculate for category 3 and 4 institutions<sup>18</sup>. The review of the methodology can provide room for proportionality to consider the risk profile of institutions. The PRC welcomes this initiative and encourages that this is implemented.
- ECB applies proportionality for the supervisory liquidity stress testing though a general principle without detailed instructions. For subsidiaries a less intense assessment is

<sup>15</sup> Paragraph 468 of the SREP Guidelines.

<sup>16</sup> Paragraph 460 and 469 of the SREP Guidelines.

<sup>17</sup> Institutions' liquidity stress tests are challenged within the SREP, especially for institutions with higher liquidity risks that are under close supervision.

<sup>18</sup> With the recalibration possibly to provide room for proportionality in terms of frequency of the stress tests (e.g. on a monthly basis for larger institutions, and quarterly for smaller institutions) and for differentiation in assumptions used and outflow factors.



foreseen. The ECB is currently in the process of revising its liquidity risk assessment methodology.

- PL performs annual liquidity stress testing with different forms, ranges and approaches for commercial banks ('bottom-up' approach with extra forms to be completed by the banks and multiple scenarios) and for cooperative banks (top down approach using data from mandatory reporting in a single-factor sensitivity test) taking into account the size, complexity and risk. The assumptions for the liquidity stress tests are updated annually.
- FR does not run periodic supervisory liquidity stress tests but ad hoc ones when needed, based on the liquidity profile of institutions. The stress testing is either fed with information regularly provided by the institution through the ILAAP or with ad hoc requested information
- LU incorporates the results of supervisory liquidity stress tests in the SREP assessment for institutions with high short-term liquidity risk (short-term liquidity risk score of 3 or 4). The use of a unique stress scenario allows to achieve comparability among institutions. The granularity of the assessment of the stress test results is based on the materiality of the risk.

## Assessment

101.The PRC found that the provisions on the application of proportionality in the liquidity risk assessment under the SREP have been largely implemented among the CAs under review. There are differences in the areas in which proportionality is being applied with some CAs covering a wider range of areas, and other CAs covering fewer areas based on their risk assessment.

102.The PRC found that ECB applies proportionality in the liquidity risk assessment under the SREP only in general terms without specific guidance being provided to supervisors, and mainly in the area of the assessment of ILAAP though their methodology for liquidity risk assessment is currently under review.

103.The PRC found that HU, PL, ECB do not apply proportionality in the assessment of intraday liquidity risk, although PL stated using a different approach for the commercial banks and for the cooperative banks in view of the different liquidity risk profiles. HU reported it may consider such approach in the future. Also, the ECB does not apply proportionality in the assessment of intraday liquidity risk referring to the scope of its supervision that contains only category 1 institutions.

104.The PRC found that DE, and FR do not perform supervisory liquidity stress testing on all institutions under their supervisory remit. The PRC also found that DE, HU, ECB do not apply proportionality in their supervisory liquidity stress testing. DE so far did not see the necessity to carry out supervisory liquidity stress testing in view of the overall liquidity position of the institutions under its direct supervision, though is planning to implement a centralized and fully automated form of liquidity stress testing in future. HU performs supervisory liquidity stress

testing for the large (category 1 and 2) institutions and is currently revising its stress testing methodology to include all institutions. ECB does not provide detailed instructions on the application of proportionality for the supervisory liquidity stress testing and is currently revising its liquidity risk assessment methodology.

105.The PRC therefore assessed the CAs' application of this benchmark as follows:

	DE	FR	HU	LU	PL	ECB
<b>3. Proportionality in assessment of liquidity risk is implemented (in CAs' methodology)</b>	LA	LA	LA	LA	LA	LA

106.The PRC considers that the following follow-up measures should be implemented:

#### Follow-up measures for CAs

*Note: Measures included below are addressed to all CAs and not just those CAs that were included in the initial review.*

107.All CAs should use supervisory liquidity stress testing, defined and run by the CA, as an independent tool to assess short- and medium-term liquidity risks using the possibility to apply fewer scenarios and lower granularity of the analysis where relevant as provided in the SREP Guidelines.

#### Recommendation to the EBA

108.In view of the wide range of practices observed the PRC recommends that the EBA continues to monitor how the proportionality principle is being applied in the different elements of the SREP assessment and develop more guidance where needed.

## 4.5 The practical application of proportionality in the assessment of liquidity risk under the SREP in accordance with the SREP Guidelines

### Introduction

109. In addition to section 4.4 on the methodology, this section focuses on the practical application of proportionality in the liquidity risk assessment under the SREP. The PRC assessed the benchmark as regards to the supervisory expectations using the following criteria: the effective application of proportionality in the intraday liquidity risk assessment and in the liquidity stress testing; the use of proportionality in the SREP is documented; and, that the CA ensures consistent application of proportionality in the liquidity risk assessment.

### Main findings

110. All CAs under review apply the supervisory engagement level for the SREP assessment also with respect to the assessment of liquidity risk under SREP, as well as the monitoring of liquidity risk on a regular basis through a set of key risk indicators, and the assessment of supervisory reporting. Two CAs under review (FR, DE) reported actual cases where they needed to change their application of proportionality for a specific institution in view of a potential change in the liquidity risk profile of the institution. LU, HU, PL, ECB reported that such cases had not yet occurred.

111. FR reported a case where due to increased liquidity risk for a category 4 institution close supervisory monitoring was put in place with daily liquidity reporting and weekly meetings, the frequency for the SREP review was increased from three to one year, and the granularity of the assessment increased.

112. DE reported individual cases of institutions where shortcomings in the liquidity risk management were identified which led to moving the institutions to more intensive supervision (e.g. through onsite inspections, specific meetings with management, qualitative measures).

113. A challenge faced by the ECB in the application of proportionality for liquidity risk is that all institutions under their supervisory scope are category 1 and the SREP Guidelines do not contain detailed provisions on the application of proportionality for category 1 institutions.

### Application of proportionality in intraday liquidity risk assessment

114. In line with the assessment on the implementation of the provisions on the application of proportionality in the intraday liquidity risk assessment as set out in section 4.4 of the report, the PRC found that half of the CAs under review (FR, DE, LU) applied proportionality in the assessment of intraday liquidity risk. The CAs applied a risk-based approach adapting the focus and granularity of the assessment to the materiality of the intraday risk. The materiality of the intraday liquidity risk is analysed based on the information provided in the ILAAP combined with other sources and the materiality of the exposure to intraday liquidity risk based on the

monitoring of indicators such as indicators related to the number and volumes of daily payments of the institutions.

- 115.FR assesses the materiality of intraday liquidity risk considering several sources including the business model, the level of the LCR, the composition of the liquidity buffer and the structure of the balance sheet. When the materiality of intraday liquidity risk is considered high, more granular information is requested from the entity. Ad hoc reporting on a daily or weekly basis can also be implemented.
- 116.DE assesses the materiality of intraday liquidity risk considering the ILAAP and adapts its liquidity risk assessment under the SREP according to the materiality of the intraday liquidity risk.
- 117.LU assesses the level of materiality of intraday liquidity risk in relation to its potential impact on the economic viability of the bank based on information provided in the ILAAP, and using an indicator based on the number and volume of daily payments of the institution (in absolute value and related to its balance sheet size). The granularity of the assessment of intraday liquidity risk is based on the materiality of the risk.
- 118.The PRC found that the remaining CAs (HU, PL, ECB) do not apply proportionality in the assessment of intraday liquidity risk.
- 119.HU explained that intraday liquidity is not a key risk factor in Hungary. HU does require larger institutions (category 1 and 2) to check their intraday liquidity positions near real time.
- 120.PL indicated to the PRC that in light of its risk assessment it does not apply proportionality for the assessment of intraday liquidity risk but that it may do so in the future. The CA also suggested that they may consider asking institutions for additional daily liquidity reporting going forward.
- 121.ECB stated it does not apply proportionality for the assessment of intraday liquidity risk as it only has category 1 institutions in scope of its supervision.

#### Application of proportionality in liquidity stress testing

- 122.In line with the assessment on the implementation of the provisions on the application of proportionality in liquidity stress testing as set out in section 4.4 of the report, three of the CAs under review (FR, LU, PL) reported applying proportionality in liquidity stress testing. The other CAs (DE, HU, ECB) do not apply proportionality in liquidity stress testing.
- 123.FR runs supervisory liquidity stress test exercises where needed based on the liquidity profile of institutions in order to help to determine the extent to which the institution can manage deposit withdrawals with liquidity reserves. The stress testing can be fed with information regularly provided (ILAAP) or with information requested on an ad hoc basis.
- 124.LU performs an annual supervisory liquidity stress test for all credit institutions under its supervisory remit and incorporates the results in the SREP based on the risk profile of the credit institutions as set out in paragraph 96 of this report.

- 125.PL performs annual liquidity stress testing with different forms, range and approach for commercial banks ('bottom-up' approach with extra forms to be completed by the banks and multiple scenarios) and for cooperative banks ('top-down' approach using data from mandatory reporting in a single-factor sensitivity test) taking into account the size, complexity and risk.
- 126.DE considered that there was no need to perform liquidity stress testing so far for the LSIs under its supervision in view of the overall liquidity position of the sector. DE is planning to implement a centralized liquidity related stress test in the future. They envisage creating a fully automated set-up in view of the high number of institutions in scope of their supervision. Institutions' stress tests are assessed within the SREP, especially for institutions with higher liquidity risk that are under close supervision.
- 127.ECB assessed liquidity stress testing in line with the general principle of proportionality but without providing any detailed guidelines. For subsidiaries a less intense assessment is foreseen.
- 128.HU shares the supervisory liquidity stress test methodology, assumptions and outflow factors with the institutions and requires quarterly calculation by the large (category 1 and 2) institutions. HU is currently revising its stress test methodology and plans to use data deriving from the standard supervisory reporting, allowing it to perform its own calculation as well. Smaller institutions (category 3 and 4) will also receive the supervisory assumptions and outflow parameters. The results will be more comparable and easier to calculate.

#### Documentation of application of proportionality in liquidity risk assessment

- 129.The use of proportionality in the liquidity risk assessment is documented by the CAs in a general way through their methodologies and manuals. For the actual use of proportionality in the SREP assessment of institutions, the CAs under review mainly use IT tools. ECB uses the IMAS tool to formalize the SREP assessment.
- 130.FR documents the use of proportionality in an internal documentation (including the annual work program) which is updated on an annual basis. This is in adequation with the proportionality principle applied at SSM level, which is documented in the SSM SREP methodology. Then, the proportionality principle is applied through the IMAS tool.
- 131.DE has developed local SREP operational procedures that give instructions on the granularity of the SREP assessment for each category of institution. DE also makes use of an IT tool that creates historical data and provided additional documentation obligations in place.
- 132.LU also complements the ECB LSI SREP methodology with a local SREP operational procedure providing instructions on the granularity of the SREP assessment for each category of credit institution. The procedure is updated on an annual basis followed by training for relevant staff. LU also makes use of an IT tool (IMAS) to document the use of proportionality in the SREP.
- 133.HU documents the use of proportionality in general through its internal procedures. The actual use of proportionality in the SREP is reflected in the type of approach taken (comprehensive/focused/simplified) to the SREP and to the ILAAP review.

- 134.PL documents the use of proportionality in its IT system as part of the supervisory engagement program. The assessment mode and the assessment algorithm are included in the supervisory assessment program for a given SREP cycle, and the results – including assessments at the appropriate level of aggregation – are stored in the SREP assessment documentation system.
- 135.ECB documents the use of proportionality in its ECB SREP manual, while the actual SREP assessment is including the use of proportionality for liquidity risk and all other SREP risk elements is documented in the IMAS IT tool.

### Consistency in application of proportionality in liquidity risk assessment

- 136.The CAs under review ensure consistency in the application of proportionality in liquidity risk assessment for institutions with similar size, business model and/or risk profile both ‘ex ante’ by means of a common methodology (including manuals/procedures/handbooks) with or without related trainings for supervisory staff (refer to section 4.3)), and ‘ex post’ through the use of IT tools, and consistency reviews.
- 137.DE makes use of an IT tool that allows to ensure consistency in the application of proportionality in the SREP, including the liquidity risk assessment. The tool calculates the minimum engagement level and adapts the amount of qualitative questions to the level of impact of the institutions. DE provides its staff with a common manual and SREP related trainings. The supervisory expectations depend on the categorisation of the institutions and their business model. Annual horizontal reviews of the institutions’ ILAAP reporting outcomes are performed.
- 138.LU also makes use of IT tools (IMAS, ongoing supervision tool and early warning system) that allow to ensure consistency in the application of proportionality in the liquidity risk assessment. LU also provides its staff with a common manual and SREP related trainings. And there is a review of the granularity of the SREP assessment during the final phase of the SREP by the Methodology and Reporting division. The implication of several liquidity experts both at CSSF and BCL support a consistent application of the proportionality principle in the liquidity risk assessment under the SREP. For banks whose monitoring is performed by the BCL, the BCL prepares the liquidity SREP assessment, which is discussed and agreed with the CSSF, and then integrated by the CSSF in the overall SREP of the institution. All the work is done according to the same methodology and formalized in the IMAS tool.
- 139.HU makes use of its internal procedures and handbook to ensure consistency in the application of proportionality as well as through the type of approach taken (comprehensive/focused/simplified) to the SREP and to the ILAAP review. The assignment of institutions to the type of ILAAP review (comprehensive/focused/simplified) is based on data from supervisory reporting ensuring a consistent application.
- 140.PL uses dedicated tools for assessing institutions based adapting the level of granularity according to the assigned ratings.

141. ECB uses the second line of defence to verify all SREP conclusions and ensure the consistent application of the ECB SREP methodology (including proportionality).

## Assessment

142. The PRC found that all CAs under review largely implemented the application of proportionality in the liquidity risk assessment under the risk in practice. The findings on the practical implementation of proportionality in the liquidity risk assessment under SREP are in line with those on the methodological implementation. The implementation also differs according to the local context. DE for example assesses liquidity risk to be relatively low in its LSI sector and would look towards a fully automated solution for implementing supervisory liquidity stress testing in view of the high number of LSIs under its direct supervision. DE also assesses the institutions' stress testing results as part of the ILAAP assessment with a more in-depth assessment for institutions with a higher liquidity risk.

143. For the assessment, the PRC also took into account the examples provided by the CAs under review of cases where the CA changed their decision on the application of proportionality for an institution following a change in its liquidity risk. Examples were provided by FR, DE of changes in the supervisory engagement level and monitoring of institutions following changes in their risk profile or identified shortcomings. HU, PL, LU and ECB reported not yet having had such case.

144. The use of proportionality in the liquidity risk assessment under SREP is documented by all CAs under review through the use of IT tools. Tools to ensure consistency across the SREP (including the liquidity risk assessment) are used by all CAs under review. The approach deemed most effective is the combination of tools allowing for 'ex ante' facilitation and 'ex post' verification of consistency.

145. The PRC therefore assessed the CAs' application of this benchmark as follows:

	DE	FR	HU	LU	PL	ECB
<b>4. The practical application of proportionality in the assessment of liquidity risk under the SREP in accordance with the SREP Guidelines is effective</b>	LA	LA	LA	LA	LA	LA

146. The PRC considers that the following follow-up measures should be implemented:

### Follow-up measures for CAs

*Note: Measures included below are addressed to all CAs and not just those CAs that were included in the initial review.*

- As liquidity risk can materialise in the very short term CAs should ensure regular monitoring in order to allow for a timely response and adaptation of the supervisory approach where needed based on institution-specific or other events/evolutions regardless of the categorisation of institutions.

147. The PRC identified the following good practices:

- The PRC considers the use of benchmarking tools, including for liquidity, to be a good practice. DE created a special ILAAP reporting framework where they receive all relevant ILAAP information in a systematic manner, enabling focused assessments and horizontal reviews of the data (e.g. on stress testing, NMD assumptions etc.). They use a range of horizontal and bank-specific analysis tools for benchmarking purposes to facilitate the assessment of the reported ILAAP information.
- The PRC considers the use of so-called 'pilot inspections' (DE) to be a good practice allowing for an efficient use of supervisory resources. When groups of institutions (such as cooperative banks and savings banks) use the same service provider (e.g. of IT infrastructure (core systems, LCR/NSFR reporting systems, cloud services)) such pilot inspections are executed at one or two institutions using the provider and also at the provider's premises. Common issues relevant for all customers and overarching weaknesses are reflected for all institutions using this provider and followed up centrally with the provider.



## 5. Conclusions and recommendations

### 5.1 Overall conclusions

148.The peer review found that proportionality in the SREP, and in the liquidity assessment under the SREP is largely implemented by the CAs under review.

149.The CAs under review implemented the categorisation of institutions and the minimum engagement model in their methodologies and adapted these to the local context. Some differences were observed in the sources used for the categorisation of institutions, in particular as regards to the use of the CRR classification of 'large' and 'small and non-complex' institutions which led to follow-up measures.

150.The CAs under review implemented the minimum engagement model and add additional levels of intensity within categories based on the risk profile of the institutions. Where for an ad hoc area there were some deviations from the minimum engagement set out in the SREP Guidelines, this led to follow-up measures.

151.In terms of practical implementation, the CAs under review have a number of practices in place to support the application of proportionality in the SREP. They also have tools in place to document the application of proportionality and to ensure consistency in its use.

152.Legal provisions on the option to use tailored methodologies and clustering of institutions are not used by the CAs under review, though individual SREP assessments are supplemented with horizontal reviews.

153.The application of proportionality in the liquidity risk assessment under the SREP has been largely implemented by the CAs under review both in their methodologies and in practice. Also, here there are differences according to the local context and liquidity risk profiles of the institutions under the CAs' supervisory remit. There were a few deviations as regards to the scope of supervisory liquidity stress testing which led to follow-up measures.

### 5.2 Follow-up measures for CAs

154.The appropriate, proportionate and necessary follow-up measures considered necessary for relevant CAs to take in order to address the issues identified in the report are set out below.

Benchmark	CA(s)	Follow-up measure
1.	All CAs	All CAS should ensure to categorise all institutions under their supervisory remit on an individual (entity) basis for SREP purposes in accordance with the SREP Guidelines.

Benchmark	CA(s)	Follow-up measure
1.	All CAs <sup>19</sup>	All CAs should incorporate the CRR classifications (of 'small and non-complex' and 'large' institutions) into the criteria for the categorization of institutions in accordance with paragraph 17 of the SREP Guidelines.
1.	All CAs <sup>20</sup>	All CAs should incorporate the use of information from the preliminary business model analysis into the input used for the categorization of institutions in accordance with paragraph 19 of the SREP Guidelines
1.	All CAs <sup>21</sup>	All CAs should foresee in their methodology the possibility to update the categorisation of an institution on an ad hoc basis where needed (e.g. following a significant corporate event) in accordance with paragraph 19 of the SREP Guidelines.
1.	All CAs <sup>22</sup>	All CAs should align their methodology on the minimum frequency for meetings with the institutions' management body and senior management to the minimum engagement model as set out in section 2.4 of the SREP Guidelines.
2.	All CAs	All CAs should ensure to be able to match the categorisation of institutions used for SREP purposes to the categories as set out in the SREP Guidelines in order to facilitate the communication and cooperation for cross-border entities, in particular in the context of colleges of supervisors and joint decision making.
2.	All CAs <sup>23</sup>	All CAs should provide specific training to supervisory staff on the topic of proportionality, either separately or as part of other trainings (e.g. supervisory trainings, or trainings on risk assessment).
2.	All CAs	All CAs should consider the use of clustering as provided for in paragraph 54 of the SREP Guidelines to drive efficiencies in the application of proportionality in the SREP.
3.	All CAs	All CAs should use supervisory liquidity stress testing, defined and run by the CA, as an independent tool to assess short- and medium-term liquidity risks using the possibility to apply fewer scenarios and lower granularity of the analysis where relevant as provided in the SREP Guidelines.
4.	All CAs	As liquidity risk can materialise in the very short term CAs should ensure regular monitoring in order to allow for a timely response and adaptation of the supervisory approach where needed based on institution-specific or other events/evolutions regardless of the categorisation of institutions.

<sup>19</sup> This measure was identified via deficiencies in the practices of HU and PL

<sup>20</sup> This measure was identified via deficiencies in the practices of HU

<sup>21</sup> This measure was identified via deficiencies in the practices of PL

<sup>22</sup> This measure was identified via deficiencies in the practices of HU and PL

<sup>23</sup> This measure was identified via deficiencies in the practices of HU and PL

## 5.3 Best practices

155. The PRC identified the following best practices developed by some CAs that might be of benefit for other CAs to adopt:

- To communicate supervisory expectations towards institutions on the minimum requirements for the risk management of all risks that are adapted to the level of complexity and riskiness of their activities.
- To use benchmarking tools such as for the main KRIs per business model, and such as for the ILAAP allowing for focused assessments and horizontal reviews of the data using a range of horizontal and bank-specific analysis tools to facilitate the assessment of the reported ILAAP information.
- To verify the quality, accuracy and reliability of the answers provided by institutions to self-assessment questionnaires, for example by performing spot checks during on-site inspections to verify if the information provided is consistent with the actual situation.
- To use 'pilot inspections' for groups of institutions using the same service provider (e.g. of IT infrastructure) that are executed at a few institutions using the provider and also at the provider's premises to allow for common issues relevant for all customers and overarching weaknesses to be identified and followed up centrally with the provider.

## 5.4 Other recommendations

156. In order to ensure that the focus of SREP is placed on the most material risks, the PRC recommends that, as part of any future review of its SREP Guidelines, the EBA provides more clarity that CAs can adapt the focus and granularity of the SREP assessment depending on the risk profile regardless of the category of the institution.

157. In order to allow for further proportionality and the efficient use of supervisory resources, the PRC recommends that, as part of any future review of its SREP Guidelines, the EBA should look at the implication of the minimum frequency set out in the engagement model and consider whether more clarity would be needed on the scope and level of assessment to be performed.

158. In view of the wide range of practices observed the PRC recommends that the EBA continues to monitor how the proportionality principle is being applied in the different elements of the SREP assessment and develop more guidance where needed.

# Annex 1. Competent authorities reviewed

The following competent authorities were the focus of this peer review:

Member State/ Jurisdiction	Competent authority
DE	Bundesanstalt für Finanzdienstleistungsaufsicht (Federal Financial Supervisory Authority, BaFin)
ECB	European Central Bank – Single Supervisory Mechanism (SSM)
FR	Autorité de Contrôle Prudentiel et de Résolution (Prudential Supervisory & Resolution Authority (ACPR))
HU	Magyar Nemzeti Bank (The Central Bank of Hungary (MNB))
LU	Commission de Surveillance du Secteur Financier (Commission for the Supervision of the Financial Sector (CSSF)) <sup>24</sup>
PL	Komisja Nadzoru Finansowego (Polish Financial Supervision Authority (KNF))

<sup>24</sup>In cooperation with the Central Bank of Luxembourg (Banque centrale du Luxembourg (BCL)) for the supervision of liquidity.

## Annex 2. Peer review committee

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Peer reviews are carried out by ad hoc peer review committees composed of staff from the EBA and members of competent authorities and chaired by EBA staff. To avoid conflicts of interest, in accordance with Article 28(2) of the EBA Peer Review Methodology, PRC members did not participate in the review of their own competent authority or in the review of an authority which is in the same Member State as their own competent authority.

This peer review was carried out by:

### Co-chairs

Jonathan Overett Somnier  
Head of Legal and Compliance Unit, EBA

Lot Anné  
Senior Policy Expert, Prudential Regulation and Supervisory Policy Unit, EBA

### Members

Adrienne Coleton  
Legal Expert, Legal and Compliance Unit, EBA

Alexandra Desson  
Policy Expert, Prudential Regulation and Supervisory Policy Unit

Emanuela Branca  
Team Lead, Supervisory Methodology Division, Horizontal Line Supervision, European Central Bank

Dionysios Vynias  
Senior Analyst, The Malta Financial Services Authority



Tour Europlaza, 20 avenue André Prothin CS 30154  
92927 Paris La Défense CEDEX, FRANCE

Tel. +33 1 86 52 70 00

E-mail: [info@eba.europa.eu](mailto:info@eba.europa.eu)

<https://eba.europa.eu>