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<td>ACP</td>
<td>Advisory Committee on Proportionality</td>
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<tr>
<td>AI</td>
<td>artificial intelligence</td>
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<td>AIRB</td>
<td>advanced IRB</td>
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<td>ALMM</td>
<td>additional liquidity monitoring metrics</td>
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<td>AML</td>
<td>anti-money laundering</td>
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<td>AMLD</td>
<td>Anti-Money Laundering Directive</td>
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<td>AMLSC</td>
<td>standing committee on AML/CFT</td>
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<td>Additional Tier 1</td>
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<td>BCBS</td>
<td>Basel Committee on Banking Supervision</td>
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<td>Bank Recovery and Resolution Directive</td>
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<td>Bank Recovery and Resolution Directive 2</td>
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<td>CEBS</td>
<td>Committee of European Banking Supervisors</td>
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<td>CFT</td>
<td>counteracting the financing of terrorism</td>
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<td>CIR</td>
<td>Credit Institutions Register</td>
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<td>CMU</td>
<td>capital markets union</td>
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<td>COREP</td>
<td>common reporting</td>
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<td>Credit Rating Agencies Regulation</td>
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<td>Capital Requirements Regulation 2</td>
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<td>CSRBB</td>
<td>credit spread risk in the banking book</td>
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<td>CTPP</td>
<td>critical ICT third-party service provider</td>
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<td>DFS</td>
<td>digital finance strategy</td>
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<td>Directorate-General for Structural Reform Support</td>
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<td>DGS</td>
<td>deposit guarantee scheme</td>
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<td>Deposit Guarantee Schemes Directive</td>
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<td>data point model</td>
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<td>European Bank for Reconstruction and Development</td>
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<td>ECAI</td>
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<td>EIOPA</td>
<td>European Insurance and Occupational Pensions Authority</td>
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<td>Eco-Management and Audit Scheme</td>
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<td>EMTN</td>
<td>euro medium-term note</td>
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<td>ESAs</td>
<td>European Supervisory Authorities</td>
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<td>ESG</td>
<td>environmental, social and governance</td>
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<td>European Securities and Markets Authority</td>
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<td>European Systemic Risk Board</td>
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<td>EU</td>
<td>European Union</td>
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<td>EUCLID</td>
<td>European Centralised Infrastructure for Supervisory Data</td>
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<td>EVE</td>
<td>economic value of equity</td>
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<td>FATF</td>
<td>Financial Action Task Force</td>
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<td>FICOD</td>
<td>Financial Conglomerates Directive</td>
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<td>financial reporting</td>
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<td>financial technology</td>
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<td>foundation IRB</td>
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<td>fundamental review of the trading book</td>
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<td>FX</td>
<td>foreign exchange</td>
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<td>GAR</td>
<td>green asset ratio</td>
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<td>GDP</td>
<td>gross domestic product</td>
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<td>G-SII</td>
<td>global systemically important institution</td>
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<td>HDP</td>
<td>high-default portfolio</td>
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<td>IAM</td>
<td>impact assessment methodology</td>
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<td>ICT</td>
<td>information and communication technology</td>
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<tr>
<td>Acronym</td>
<td>Definition</td>
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<td>IFD</td>
<td>Investment Firms Directive</td>
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<td>IFR</td>
<td>Investment Firms Regulation</td>
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<td>IGT</td>
<td>intragroup transaction</td>
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<td>internal model approach</td>
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<td>IRB</td>
<td>internal ratings-based</td>
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<td>internal ratings-based approach</td>
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<td>external ratings-based approach</td>
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<td>IFRS</td>
<td>International Financial Reporting Standards</td>
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<td>IRRBB</td>
<td>interest rate risk in the banking book</td>
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<td>IT</td>
<td>information technology</td>
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<td>ITS</td>
<td>implementing technical standards</td>
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<td>JTD</td>
<td>jump-to-default</td>
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<td>KID</td>
<td>key information document</td>
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<td>LCOR</td>
<td>large corporates</td>
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<td>LCR</td>
<td>liquidity coverage ratio</td>
</tr>
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<td>LDP</td>
<td>low-default portfolio</td>
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<td>LGD</td>
<td>loss given default</td>
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<td>MCD</td>
<td>Mortgage Credit Directive</td>
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<td>MICA</td>
<td>markets in crypto-assets</td>
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<tr>
<td>MiFID</td>
<td>Market in Financial Instruments Directive</td>
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<td>MREL</td>
<td>minimum requirement for own funds and eligible liabilities</td>
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<td>ML/TF</td>
<td>money laundering/terrorist financing</td>
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<tr>
<td>NACE</td>
<td>Nomenclature des Activités Économiques dans la Communauté Européenne (statistical classification of economic activities in the European Community)</td>
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<tr>
<td>NCA</td>
<td>national competent authority</td>
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<tr>
<td>NFC</td>
<td>non-financial counterparty</td>
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<tr>
<td>NGFS</td>
<td>Network for Greening the Financial System</td>
</tr>
<tr>
<td>NFRD</td>
<td>Non-Financial Reporting Directive</td>
</tr>
<tr>
<td>NII</td>
<td>net interest income</td>
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<tr>
<td>NMRF</td>
<td>non-modellable risk factor</td>
</tr>
<tr>
<td>NPE</td>
<td>non-performing exposure</td>
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<tr>
<td>NPL</td>
<td>non-performing loan</td>
</tr>
<tr>
<td>NPO</td>
<td>non-profit organisation</td>
</tr>
<tr>
<td>O-SII</td>
<td>other systemically important institution</td>
</tr>
<tr>
<td>OTC</td>
<td>over-the-counter</td>
</tr>
<tr>
<td>PD</td>
<td>probability of default</td>
</tr>
<tr>
<td>PIR</td>
<td>Payments Institutions Register</td>
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<td>PRIIPs</td>
<td>Packaged Retail and Insurance-based Investment Products</td>
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<td>PSD 2</td>
<td>Payment Services Directive 2</td>
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<td>PSP</td>
<td>payment service provider</td>
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<tr>
<td>RAQ</td>
<td>risk assessment questionnaire</td>
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<tr>
<td>RAR</td>
<td>risk assessment report</td>
</tr>
<tr>
<td>RegTech</td>
<td>regulatory technology</td>
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<tr>
<td>RC</td>
<td>risk concentration</td>
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<tr>
<td>RETO</td>
<td>retail portfolio consumer credits</td>
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<tr>
<td>RQRR</td>
<td>retail portfolio qualified revolving exposures</td>
</tr>
<tr>
<td>RRE</td>
<td>residential real estate</td>
</tr>
<tr>
<td>RTS</td>
<td>regulatory technical standards</td>
</tr>
<tr>
<td>RWAs</td>
<td>risk-weighted assets</td>
</tr>
<tr>
<td>SA</td>
<td>standardised approach</td>
</tr>
<tr>
<td>SCA</td>
<td>strong customer authentication</td>
</tr>
<tr>
<td>SFDR</td>
<td>Sustainable Finance Disclosure Regulation</td>
</tr>
<tr>
<td>SGV</td>
<td>Sub-group vulnerabilities</td>
</tr>
<tr>
<td>SLA</td>
<td>service level agreement</td>
</tr>
<tr>
<td>SLE</td>
<td>specialised lending exposures</td>
</tr>
<tr>
<td>SLSC</td>
<td>specialised lending slotting criteria</td>
</tr>
<tr>
<td>SMEs</td>
<td>small and medium-sized enterprises</td>
</tr>
<tr>
<td>SNCIs</td>
<td>small and non-complex institutions</td>
</tr>
<tr>
<td>SREP</td>
<td>supervisory review and evaluation process</td>
</tr>
<tr>
<td>SRT</td>
<td>significant risk transfer</td>
</tr>
<tr>
<td>SSM</td>
<td>Single Supervisory Mechanism</td>
</tr>
<tr>
<td>SSRM</td>
<td>stress scenario risk measure</td>
</tr>
<tr>
<td>STS</td>
<td>simple, transparent and standardised</td>
</tr>
<tr>
<td>SupTech</td>
<td>supervisory technology</td>
</tr>
<tr>
<td>SVB</td>
<td>supervisory benchmarking</td>
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<tr>
<td>TFEU</td>
<td>Treaty on the Functioning of the European Union</td>
</tr>
<tr>
<td>TLAC</td>
<td>total loss-absorbing capacity</td>
</tr>
<tr>
<td>WAM</td>
<td>weighted average maturity</td>
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</table>
Foreword by the Chairperson

2020 has been an exceptional year. The COVID-19 pandemic, which broke out at the beginning of 2020, has introduced an unexpected new level of uncertainty into all our lives and dramatically changed the way we live and work. The uncertainty about how the pandemic would evolve made the situation even more concerning. It is a global health threat that knows no borders, is pervasively disruptive and has the potential to have an enduring impact.

Against this challenging backdrop, the EBA has significantly contributed to mitigating the socio-economic impact of this major health crisis by acting swiftly, decisively and in a coordinated manner on many fronts. An initial key objective for us was to address any operational challenges banks could face under these exceptional circumstances to ensure business continuity and adequate service to their customers. With this in mind, we took the decision to postpone the 2020 EU-wide stress test to 2021 and to carry out an additional transparency exercise to provide updated information on banks’ exposures and asset quality to market participants. We also gave banks some leeway in supervisory reporting, without putting at stake the crucial information needed to closely monitor their financial and prudential situation.

On the regulatory side, we issued guidance on the implementation of the regulatory framework and areas where some term adjustments were needed to avoid unintended consequences arising from its application. We issued guidelines on payment moratoria in record time to avoid the automatic reclassification into forborne or defaulted status of loans under moratoria, thus safeguarding borrowers with temporary liquidity problems. We also insisted on the need for banks to identify and measure risks in a timely and accurate manner. In parallel, supervisors provided flexibility in the use of buffers to cover losses and keep lending to the economy.

Despite all the challenges posed by the COVID-19 pandemic, we managed to execute the bulk of our Work Programme as planned and delivered more than one hundred mandates, mainly stemming from the Risk Reduction Package. Throughout 2020, I believe that the quantity and the quality of the work delivered was impressive. Most importantly, the effective coordination with our Members and the other EU institutions, as well as the teamwork, motivation and energy exhibited by the EBA staff, allowed us to perform in a flexible manner in a very demanding economic environment.

2020 was also a special year for the Authority as we completed a decade of important achievements, which have led to a much more solid banking sector. Banks now hold much more capital, are better funded
and have more liquidity. A sign of the progress EU banks have made in the last ten years is the evolution of their Common Equity Tier 1 ratio (CET1) from around 9% in 2011 versus 15.1% in December 2019. We also need to acknowledge the efforts banks have put into repairing their balance sheets and improving their asset quality in recent years. Although the pace of adjustment could have been faster, banks have more than halved their NPL volume and ratio since 2014. The COVID-19 crisis has indeed proved how the current solidity of the banking sector can play a very important role in a difficult situation and contribute to its solution by attenuating its short term impacts and ensuring a fast and healthy recovery.

The regulatory work we have delivered in the last ten years by building the Single Rulebook - the backbone of the Banking Union and financial sector regulation in the EU - has contributed to the stronger EU banking sector we have today. With this common set of rules directly applicable across all EU Member States, we have moved from a regulatory regime based on minimum harmonisation to a more prescriptive regulatory framework, which has contributed to furthering the Single Market, but also ensuring a level playing field for financial institutions.

Notwithstanding the resilience of the banking system, the COVID-19 economic crisis and associated financial market turbulence are acting as the first major test of post-2008 regulatory reforms, thus presenting an opportunity to assess the effectiveness of the overhauled bank regulatory framework and whether some unintended consequences should be addressed.

The challenges faced by the banking sector before the pandemic have not gone away. On the contrary, the health crisis has exacerbated them. In particular, digitalisation and sustainability-related risks are two important areas where the challenges, as well as the opportunities, will become increasingly important. Here at the EBA, we will continue to actively monitor these risks and the opportunities, which are likely to have an impact on banks’ business models. In addition, we are still finalising Basel III, where it will be important that we implement the last elements of this important reform, which reflects the lessons learned from the financial crisis. Finally, we will continue to play an important role in contributing to other reforms, such as the implementation of the new regime for investment firms and the mandates granted to the EBA under the resolution and recovery framework.

Last year marked the first year in which the EBA operated under the review of the European Supervisory Authorities (ESAs) regulation with the objective to ensure stronger, safer and more integrated financial markets for the benefit of European consumers, investors and businesses. It is a review that reinforces the role and powers of the ESAs, including that of the EBA, by strengthening its role in the area of anti-money laundering.

In times of difficulty, like the one that we are experiencing now, it is vital that we navigate through it together to ensure that all banks can better serve citizens in distress by continuing to lend to the real economy and supporting its recovery. I would like to conclude by highlighting the flexibility, coordination and swift responses among our Members and other EU authorities to such a challenging environment. These responses were possible thanks to the positive attitude, professionalism and commitment that our staff have shown in responding to the emergency. I am permanently indebted to them for their efforts.
Interview with the Executive Director

You joined as EBA Executive Director in September 2020, right in the middle of the COVID-19 outbreak. How did this major health crisis affect your onboarding?

Like all recent new-joiners, my onboarding was largely remote. For a few weeks in September I was lucky enough to get to meet a few colleagues who were then coming to the office on a voluntary basis, but with the second wave this was short-lived, and it is very clear that not meeting people in person is a challenge. Overall, everything went however smoothly, thanks to the great support and dedication of our teams.

Pandemic-related issues have been high on my agenda since my joining. Not only is it a major policy topic for the EBA but from an organisational perspective, it is also one of my key priorities. With the management team, we need to ensure the highest possible safety and well-being conditions for our staff under these very demanding, and evolving circumstances. We initially thought a gradual return to the office could be possible but the successive waves forced us to constantly reassess and adjust our remote working setup. All in all, we had to learn how to live with this high-level of uncertainty.

I would like to praise the work of the EBA’s Crisis Response Team, under the leadership of Peter Mihalik, our Director of Operations. Peter was serving as Acting Executive Director when the crisis struck, and he immediately steered the Authority into crisis mode, developing first-rate protocols to ensure continuity and staff safety, and to support their remote working. Throughout this difficult period, we have considerably raised our internal communication, and we keep enriching our offer to staff, to support them in their work and well-being. The crisis has deeply affected our professional and private lives, and it is essential that we can exchange as much as possible about our experiences, difficulties, ideas. It is a challenge, not least for our managers, who are extremely dedicated and strive to maintain cohesion.

Keeping morale and motivation high is obviously a constant challenge for all of us. At the same time, we are also fortunate that our work can make a difference and directly contribute to the crisis response. This, I am sure, is a driving force explaining the amazing contribution delivered by the EBA staff in recent months, as well as their commitment, morale, and professionalism, which I truly find impressive!
The EBA is celebrating its 10 years of activity and 2020 marks the end of a very important cycle. As Executive Director, what are your priorities for the years to come?

The EBA’s role is to ensure that the banking sector can adequately support the European economy, in normal times and in crisis times. This is our mission, and we need to accomplish it as a transparent, trusted, and efficient organisation.

In 2021, the EBA turned ten years old. To adequately celebrate, pause, reflect, and prepare for the future, we have devised a programme of events and activities for the staff and our stakeholders throughout the entire year 2021. The first ten years have been intense, with the development of a comprehensive rulebook for banking activities and supervision in Europe, first-rate analysis of banks’ vulnerabilities, important achievements for consumer protection and transparency. But we don’t expect the next ten years to be less busy!

On the regulatory front, we will need to further develop, maintain and improve the Single Rulebook, so that it remains fully relevant for core banking activities, charters new territories, such as digital finance or ESG, and becomes more proportionate and user-friendly. In the area of financial stability, we will need to keep our edge in tools and technology for risk identification and measurement, complementing and improving our already widely valued vulnerabilities dashboards, sensibility analyses, stress tests. All this should benefit from all the work done by the EBA and its members to collect, use and disseminate harmonised bank and supervisory data and information for the entire EU banking system. Those now need to be fully used, by the organisation to support our policy and risk analysis work, but also by all our stakeholders.

On an organisational perspective, we have reached a certain maturity and need to be exemplary. With this in mind, one of my first actions was to strengthen our Ethics and compliance function, with a new organisation implemented last January. As the EBA also needs to fully reflect the society it is embedded in, we are working with HR on improving our diversity and gender balance at all levels - recruitment processes, day-to-day management, ad hoc sensibilisation measures. I am also fully committed to creating more opportunities for the EBA to continue developing their technical skills, maintain their motivation, and prepare for new roles.

To best deliver on our existing and new mandates, we are making all efforts to enhance synergies and proportionality. In recent months, we have started streamlining our portfolio of activities, and reduced their overall number by 30%. We have also appointed team leaders to foster a collaborative and agile working approach to critical issues. Last but not least, we are rolling out new collaboration tools to become even more efficient.

How do you see the EBA’s role in the various international fora going forward?

The EBA is a valued partner and plays a key role in a number of international and European fora. Our analyses, data, and expertise are in high demand, not just in the more traditional supervision and regulation topics but also in more innovative areas, such as digitalisation, Fintech, sustainable finance, or in AML/CFT. This reflects our unique positioning at the heart of the European supervisory and regulatory framework. This is a key asset. We need to preserve and develop it. Thus we can make a meaningful contribution, grounded in reality, to the policy debates, and benefit from the expertise of regulators in major jurisdictions for our own work. This is a great opportunity and responsibility.
## Key publications by activity

### CAPITAL
- Consultation paper on RTS amending RTS on own funds and eligible liabilities
- RTS on the prudential treatment of software assets
- EBA opinion on the prudential treatment of legacy instruments

### ACCOUNTING AND AUDIT
- Consultation Paper on ITS amending Commission Implementing Regulation (EU) 2016/2070 with regard to benchmarking of internal models
- First feedback on IFRS 9 benchmarking of models

### LARGE EXPOSURES
- Consultation paper on Guidelines specifying the conditions for the application of the alternative treatment of institutions’ exposures related to “tri-party repurchase agreements” for large exposures purposes
- Consultation Paper on draft RTS on derivatives indirect exposures

### CREDIT RISK
- Peer Review Report on the application of RTS on identified staff
- Opinion on credit insurance
- ITS on benchmarking of internal approaches
- Guidelines on legislative and non-legislative moratoria
- Amending Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis
- Opinion on RTS on sloting approach for specialised lending exposures
- Guidelines on credit risk mitigation for institutions applying the IRB approach with own estimates of LGDs
- Report on COVID-19 policy implementation issues
- Opinion on RTS on IRB assessment methodology
- Consultation paper on draft RTS on the calculation of risk-weighted exposure amounts of CIUs under Article 132a(4) of the CRR

### MARKET RISK
- RTS on treatment of non-trading book positions subject to FX or commodity risk
- Peer Review Report on the application of RTS on identified staff
- RTS on liquidity horizon under the IMA
- ITS on specific reporting requirements for the market
- RTS on the capitalisation of non-modellable risk factors under the FRTB
- Guidelines on the treatment of structural FX
- Updated list of closely correlated currencies
- Consultation paper on RTS on default probabilities (PDs) and losses given default (LGDs) under the internal default risk model
- Guidelines on criteria for use of data inputs in the risk measurement model under the IMA
- Opinion on the European Commission’s amendments relating to the final draft RTS on the specification of the nature, severity and duration of an economic downturn
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<td>RTS on the calculation of stress scenario risk measure</td>
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<td>RTS on prudential requirements for investment firms</td>
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<td>RTS on methodology to estimate P2R and CBR for resolution groups not subject to P2R under CRDIV</td>
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## PAYMENT SERVICES
- Guidelines amending the EBA guidelines of 2018 on fraud reporting under PSD2
- Opinion on potential obstacles under Art.33(2) of the RTS on strong consumer authentication and common secure communications
- Consultation paper on the draft revised Guidelines on major incident reporting under PSD2

## ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM
- Report on CAs’ approaches to the AML/CFT supervision of banks
- Consultation paper on revised Guidelines on customer due diligence and the factors credit and financial institutions should consider when assessing the money laundering and terrorist financing risk associated with individual business relationships and occasional transactions
- Report and action plan on competent authorities’ approaches to tackling market integrity risks associated with dividend arbitrage trading schemes
- Report on the future AML/CFT framework in the EU (in response to the EU Commission’s call for advice)
- Opinion on how to take into account ML/FT risks in the supervisory review and evaluation process (SREP)
- Opinion addressed to COM/NCAs on the interplay between the AMLD and the DGSD
- Report on the functioning of AML/CFT Colleges
- Risk assessment methodology under Article 9a of the EBA Regulation

## RISK ANALYSIS
- Guidelines on the appropriate subsets of exposures in the application of a systemic risk buffer
- Revised EBA Methodological Guide - Risk Indicators
- JC autumn risk report
- Asset encumbrance report 2020
- Annual risk assessment report on the European banking system
- Opinion on Article 458 of CRR - Belgium
- Opinion on Article 458 of CRR - France
- Opinion on Article 458 of CRR - Netherlands
- Opinion on Article 458 of CRR - Norway
- Opinion on Article 458 of CRR – Sweden
- Report on moratoria and public guarantees

## STRESS TESTING
- Consultation on the future EU-wide stress test

## DATA ANALYSIS
- Risk dashboard with date from Q3 2019
- RTS on the identification methodology for global systemically important institutions (G-SIIs)
- ITS on Pillar 3 disclosure of indicators for G-SIBs
- Updated list of Other Systemically Important Institutions (O-SIIs)
- Risk dashboard with date from Q4 2019
- Risk dashboard with date from Q1 2020
- Risk dashboard with date from Q2 2020
- Guidelines on the specification, reporting and disclosure of indicators of global systemic importance
Updated data used for the identification of global systemically important institutions (G-SIIs)

Report on methodology for the design and calibration of O-SII buffer rates

**STATISTICAL TOOLS**

Spring transparency exercise

Autumn transparency exercise

**ECONOMIC ANALYSIS AND IMPACT ASSESSMENT**

Report on Basel III Monitoring (data as of 30 June 2019)

Report on Liquidity Measures (data as of 30 June 2019)

CIA benchmarking of national loan enforcement frameworks (including insolvency benchmarking)

Report on the LCR unwind mechanism

Report on Basel III Monitoring (data as of 31 December 2019)

Basel III reforms: updated impact study results based on data as of 31 December 2019

**POLICY COORDINATION AND COMMUNICATION**

Consolidated Annual Activity Report 2019

Annual Report 2019

Single Programming Document 2021

Revised Work Programme for 2020 in light of COVID-19 pandemic

Work programme 2021

ESAs’ Board of Appeal decision on Howerton v ESMA

ESAs’ Board of Appeal decision on Howerton v EIOPA

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**Figure 1:** Overview of regulatory products delivered against the EBA work programme for 2020
The EBA’s response to the COVID-19 pandemic

Putting in place prudential and supervisory measures to support bank lending into the real economy

The EBA took decisive action in response to the COVID-19 pandemic in 2020. This included the publication of guidelines on legislative and non-legislative moratoria on loan repayments, as well as guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis.

Developing and publishing guidelines on COVID-19 reporting and disclosure

Since the outbreak of the COVID-19 crisis, the EBA has been engaged in providing clarity to institutions on the prudential and supervisory approach to measures introduced by national governments and EU bodies to address and mitigate the negative economic effects of the pandemic.

These measures, and any additional forbearance measures granted by banks in response to the COVID-19 crisis, were not explicitly captured in the current reporting and Pillar 3 disclosure framework. In order to address these data gaps in supervisory reporting and disclosure, and to ensure a coordinated approach to the collection of additional information within the European Union, the EBA developed and published its guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis. These guidelines are aimed at monitoring, in a proportionate way, the implementation of the measures introduced in response to the COVID-19 crisis and the potential increase in non-performing exposures (NPEs) in the future. They cover information that is key to understanding the impact of payment moratoria, public guarantees and other forbearance measures granted in the context of the COVID-19 crisis on the credit quality of banks’ assets for supervisors and users of that information. The reporting and disclosure requirements are expected to be time-limited since they are linked to the context of the COVID-19 pandemic.
The COVID-19 outbreak and resulting government restrictions in many EU countries continue to have a severe impact on businesses and private individuals. In particular, many of these businesses and individuals have faced liquidity shortages, as well as difficulties in meeting their financial and other commitments in a timely manner. Member States have therefore implemented a broad range of support measures. In many instances, these include some form of moratorium on payments of credit obligations, with the aim of supporting the short-term operational and liquidity challenges faced by borrowers resulting from the prolonged lockdowns.

As policy experts, we recognised the exceptional circumstances of the COVID-19 pandemic from the outset and were strongly supportive of the measures and initiatives taken in the Member States and by the EBA. We also took the view that it was crucially important to support the role of banks in ensuring the continued flow of lending. At the same time, we were aware of the need to ensure that the risk is identified and measured in a true and accurate manner. Working on such a sensitive topic provided an opportunity to see how we could use the flexibility within the prudential framework to cope with unprecedented crisis conditions. We therefore initiated a discussion with our Board Members on the need to ensure the flexible but consistent treatment of moratoria issued across the EU. Accordingly, on 2 April 2020, the EBA issued guidelines on payment moratoria. The aim of these guidelines is to clarify the requirements for legislative and non-legislative moratoria. If fulfilled, these requirements will help avoid the classification of exposures under the definition of forbearance or their classification as defaulted due to distressed restructuring. By issuing these guidelines on moratoria, the EBA provided significant certainty on the application of the regulatory framework to the various forms of payment moratorium introduced by banks in the European Union to support their obligors.

Owing to the evolution of the pandemic and the continued restrictions on activities over the course of 2020, we enabled a discussion among supervisors on extending the deadline for the application of these guidelines from 30 June to 30 September 2020. Subsequently, in the light of the second wave of the pandemic unfolding in many EU countries in the second half of the year, we prepared the arguments for the EBA to reactivate its guidelines on moratoria on 2 December 2020. We had to ensure that the support provided by moratoria would be limited to bridging liquidity shortages triggered by the new lockdowns. As such, the EBA introduced two constraints on the guidelines. First, the total length of the payment holiday should not exceed nine months.
Second, credit institutions are requested to document to their supervisor their plans for assessing exposures subject to general payment moratoria so that borrowers do not become unlikely to pay. This requirement will allow supervisors to take any appropriate action. This second constraint is significant: almost a year on from the start of the pandemic, we are about to see the consequences of the crisis on banks’ lending books. What is unfolding now has an impact on the credit quality of banks’ exposures, and we are likely to see credit losses increasing down the line.

Reporting on the implementation of COVID-19 credit risk policy relief measures

Despite the decisive action taken by the EBA in the form of the guidelines described above, it is also clear that a significant number of policy issues have arisen. To address these issues, the EBA has published a COVID-19 implementation report. The aims of the report are twofold: first, it is intended to provide a follow-up to the implementation issues around COVID-19 credit risk policy relief measures and, in particular, the guidelines on moratoria; second, it sets out to monitor how such measures are implemented. As such, the report provides clarification on questions raised in the context of the EBA’s monitoring of the implementation of COVID-19 policies. Given that new issues have continued to arise over the course of 2020 and even 2021, EBA has provided several updates to this report.

The report includes questions and answers brought to the attention of the supervisory community on the guidelines on moratoria. These guidelines were developed to extremely tight deadlines, so the report provides clarification of certain paragraphs for the benefit of industry stakeholders and the public. The report also considers criteria that institutions should adopt with regard to operational risk in the context of COVID-19. The common criteria set out in the report are aimed at reducing possible inconsistencies in capital requirements calculations related to operational risk. This will provide institutions with a clear view of supervisory and regulatory expectations when dealing with operational risk losses. Another section of the report focuses on the implementation issues around the guidelines on COVID-19 reporting and disclosures. It brings together several points that competent authorities and institutions brought to the EBA’s attention and on which they asked for clarification.

Finally, the report clarifies how the policies in the regulatory technical standards (RTS) on economic downturn and the guidelines on downturn loss given default (LGD) estimation should be applied in the light of the COVID-19 pandemic. It also sets out certain aspects of how public guarantee schemes deployed in response to the COVID-19 crisis should be treated for credit risk mitigation purposes by institutions applying the internal ratings-based approach (IRBA) with own LGD estimates.

It should be stressed that the EBA will keep monitoring any questions or concerns with respect to the implementation of the regulatory policy and will provide further clarity as needed.

Implementing the mandates set out in the COVID-19 capital markets recovery package

The COVID-19 capital markets recovery package was agreed by the co-legislators on 16 December 2020, amending the Capital Requirements Regulation (CRR) and the Securitisation Regulation to introduce a simple, transparent and standardised (STS) framework for balance-sheet synthetic securitisation and certain ad hoc provisions on the regulatory capital treatment of NPE securitisations.

In 2021, the EBA will develop the following regulatory products and instruments, which have been mandated through various amendments of the CRR and the Securitisation Regulation:

- RTS on synthetic excess spread;
- RTS on performance-related triggers for STS-compliant synthetic securitisations;
- RTS on risk retention (including NPE securitisations);
- Report to develop a specific framework for sustainable securitisation.
Supporting the economy through cautious dividend policies

The COVID-19 pandemic has raised a significant number of policy challenges at both the EU and national levels. The EBA published a statement on 12 March 2020 urging banks to follow conservative policies on dividends and other distributions and to use capital to ensure the continuous financing of the economy. Banks in the European Union have been able to continue supporting businesses and have mostly maintained strong levels of capitalisation.

Given that the COVID-19 crisis and the uncertainty over its impact on the economy are likely to continue, with a possible further deterioration in asset quality metrics over subsequent quarters, on 15 December 2020 the EBA once again urged banks to refrain from distributing capital outside the banking system when deciding on dividends and other distribution policies, including share buybacks, unless extreme caution is applied.

In both statements, it was also stressed that a larger part of the variable remuneration of material risk takers should be deferred for a longer period, and a larger proportion should be paid out in instruments. It was emphasised in addition that competent authorities should closely monitor banks’ remuneration policies, in particular to ensure that they are consistent with effective risk management and with the long-term interests of the banks in question.

The EBA will continue to monitor the practices and follow up on the measures taken in this regard.

Assessing and monitoring the evolution of risks and enhancing transparency

Assessing risks and vulnerabilities in the banking sector amidst the outbreak of COVID-19

In May 2020, the EBA issued a thematic note entitled ‘The EU banking sector: first insights into the COVID-19 impacts’, giving market participants an insight into EU banks’ capacity to absorb potential losses due to the unprecedented challenges posed by the outbreak of COVID-19.

The heightened uncertainty over the severity of the crisis, the length of the recession and the speed of the recovery made it difficult to assess the potential impact of the COVID-19 crisis on the EU banking sector. The note acknowledges the better starting position of the EU banks compared with previous crises, as their Common Equity Tier 1 (CET1) ratio was close to 15% in the fourth quarter of 2019, well above the regulatory requirement. Banks’ liquidity coverage ratios (LCRs) were also significantly above the regulatory minimum. A sensitivity analysis based on year-end 2019 data and the adverse 2018 EBA stress test scenario indicated that the impact of credit risk losses on CET1 ratios could range between around 230 basis points and 380 basis points, without taking into account the potential beneficial effect of loan payment moratoria and public guarantee schemes. The note points out that, thanks to the existing capital buffers and the measures adopted by regulators and supervisors, banks would hold, on average, a management buffer of about 1.1 percentage points above the overall capital requirement after absorbing those prospective losses.

In the risk assessment report published in December 2020, the EBA followed up on these results and compared the losses recognised by banks as of June 2020 with the losses estimated in the sensitivity analysis. The comparison showed that only a small share of the respective potential losses had been recognised in banks’ balance sheets.

The note also covered, for instance, the potential impact that drawings on credit lines might have on risk-weighted assets (RWAs). It was one of the first reports published by EU and national institutions on this topic.
As COVID-19 spread in Europe and worldwide, Member States deployed relief measures such as moratoria on loan repayments [legislative measure] and public guarantee schemes (PGSs), as well as fiscal and other measures, in order to mitigate the immediate impact of the sudden freeze in economic activity, support new lending and provide breathing space to borrowers. Relief measures, such as moratoria, were also provided by private/industry initiatives [non-legislative measure]. Banks’ exposures under moratoria on loan repayments, both legislative and non-legislative, required a common prudential treatment, which was provided by the EBA guidelines on legislative and non-legislative moratoria on loan repayments. In order to enable competent authorities and, more generally, market participants to monitor the risks associated with these exposures, the EBA introduced guidelines on the reporting and disclosure of COVID-19 measures. Based on the supervisory data the EBA published a thematic note on the use of moratoria on loan repayments and public guarantees. The note also identified that there was significant use of both moratoria (EUR 871 billion) and public guaranteed loans (EUR 184 billion) as of June 2020. The use of these support measures evolved in the subsequent months, reaching EUR 900 billion and EUR 343 billion respectively by the end of the year. The support measures were used in particular by small and medium-sized enterprises (SMEs) and by the sectors hardest hit by the COVID-19 crisis, such as the hospitality industry.

Promoting transparency through a published list of moratoria and public guarantees

To provide institutions across EU Member States with transparency on the different legislative and non-legislative moratoria issued across the EU, the EBA has set up a process for receiving notifications from Member States detailing the aspects of the different moratorium schemes that have been introduced in each jurisdiction. A list of the moratoria in place in each jurisdiction, together with their basic features, has been published on the EBA website. This list is continually updated on the basis of notifications received.

In most Member States where a legislative moratorium is in place, participation in the moratorium is compulsory. However, most moratorium schemes are non-legislative, meaning that they are an industry or sector-wide initiative agreed or coordinated within the banking industry. A wide range of selection criteria are in place for obligors or exposures to be considered eligible to participate in a moratorium. These criteria are usually based on the sector or segment of the obligor or exposure (mortgages, consumer loans, etc.). Other aspects of these moratoria which are mentioned on the EBA website are: (i) whether obligors are requested to opt in to participate in the moratorium; (ii) the deadline for obligors to submit an application; (iii) the conditions offered by the moratorium; (iv) the duration of the overall suspension, postponement or reduction in payments; and (v) the date from which the moratorium applies. A link to the moratorium, where more details can be found, is also provided.

Similarly, the EBA has published a list of the public guarantee schemes deployed in response to the COVID-19 pandemic. This list, which complements the information included in the EBA report on the implementation of selected COVID-19 policies, is aimed at providing transparency to the public on the existence of public guarantees. It is also intended as a response to the European Commission’s request for a stock-take of such guarantees. The list provides an overview of the more than 50 public guarantee schemes, which, to the EBA’s knowledge, have been issued in response to the COVID-19 pandemic. It includes information about the guarantor and the region or district covered by the scheme. In addition, the list clarifies whether the scheme is targeted at new lending or at existing exposures, as well as specifying the types of obligor or exposure covered by the scheme, and the level of coverage of exposures by the guarantee. A link to additional documentation for each scheme is also provided.

This list is part of the EBA’s wider efforts to monitor both the implementation of COVID-19 policies and the application of existing policies under these exceptional circumstances. The EBA will continue to monitor the situation closely, aiming to provide transparency to the public on the use of moratoria and coverage of public guarantees.
Updating Basel III impact studies in response to European Commission call for advice

The final Basel III framework is a central element of the global regulatory response to the financial crisis. In 2019, the EBA delivered its advice to the European Commission supporting the full, timely and consistent implementation of these global standards in EU legislation. The advice included a quantitative impact assessment, a set of policy recommendations and a macroeconomic impact assessment produced jointly by the EBA and the European Central Bank (ECB).

Following the outbreak of the COVID-19 pandemic, the Basel Committee on Banking Supervision (BCBS) announced on 27 March 2020 that the implementation of Basel III was to be deferred by one year to 1 January 2023. In this context, on 21 August 2020 the European Commission asked the EBA to update its previous advice on the implementation of the Basel III post-crisis reforms, taking into account the potential effects of COVID-19. On 15 December 2020, the EBA duly published updated advice on the implementation of Basel III in the European Union. The updated advice focused on the assessment of the quantitative impact of Basel III on banks’ capital and minimum required eligible liabilities. The policy recommendations included in the original advice remained unchanged. The assessments provided by the EBA are intended as input into the Commission’s legislative proposal for implementing Basel III in the European Union.

Mitigating consumer, payment and financial crime risks

Given the exceptional circumstances caused by the spread of COVID-19 across the globe, on 25 March 2020, the EBA issued a statement calling on financial institutions to ensure that they act in the interest of the consumer when engaging with them regarding temporary measures for loans in identified cases, avoiding penalty fees and any impact on the consumer’s credit rating. Financial institutions should ensure that the measures in question are granted in compliance with EU legislation, such as the Mortgage Credit Directive and the Consumer Credit Directive. They should also focus on the importance of full information disclosure, especially regarding any potential charges and costs, and on the transparency and clarity of terms and conditions.

In the same statement the EBA called on payment service providers (PSPs) to contribute to measures that limit the spread of COVID-19. Specifically, the EBA encouraged PSPs to facilitate payments in stores without the need for physical contact by increasing the...
contactless payment limits set by national industries to the maximum threshold of EUR 50 per transaction as allowed under the related EBA’s technical standards. In the same statement, the EBA supported the efforts of issuing and acquiring PSPs to focus on business continuity by removing the obligation for them to report by 31 March 2020 to their respective national competent authorities (NCAs) on their readiness to meet the strong customer authentication (SCA) requirements for e-commerce card-based transactions.

On 31 March 2020, the EBA issued another statement on actions to mitigate financial crime risks in the context of the COVID-19 pandemic. The EBA called on competent authorities to adapt the use of their supervisory tools temporarily to ensure ongoing compliance by credit and financial institutions with their anti-money laundering/countering the financing of terrorism (AML/CFT) obligations and to refer to the European Supervisory Authorities’ [ESAs’] guidelines on risk-based AML/CFT supervision. In May, the EBA identified additional emerging risks that were likely to be relevant across the European Union. In July, the EBA facilitated discussions and information-sharing among competent authorities to identify best supervisory practices in relation to COVID-19.

ADDRESSING THE AFTERMATH OF COVID-19

Monitoring the implementation of IFRS 9 and the related impact of COVID-19 in 2021

Monitoring of International Financial Reporting Standard 9 (IFRS 9) modelling practices by banks remains a key priority for the EBA, as the measurement of expected credit losses directly affects the own funds regulatory ratios. In March 2020, following the outbreak of the COVID-19 pandemic, the EBA clarified, among other aspects, that when applying international financial reporting standards, a certain degree of judgement is expected in distinguishing between borrowers that would not be significantly affected by the current crisis situation and those that would be unlikely to restore their creditworthiness. In this light, the ongoing IFRS 9 benchmarking exercise is of the utmost importance, from a regulatory and supervisory standpoint, for identifying any inconsistent practices and/or undue variability when applying the standard.

The EBA has been analysing the data collected under this exercise, which focuses on quantitative information on IFRS 9 modelling parameters for two reference dates, namely 31 December 2019 and 30 June 2020. The intention is to capture data for the periods both before and after the COVID-19 outbreak. These quantitative data are complemented by qualitative information on the modelling practices, also covering the two reference periods.

The next step in the benchmarking exercise will be to provide detailed feedback to the participating institutions and further investigate any relevant observations, in particular those changes in the modelling practices or variations in the results that are apparently linked directly to the current crisis scenario.

Working together to address COVID-19 credit risk and future growth in NPLs

As the payment moratoria and other support measures introduced to help cushion the impact of the COVID-19 pandemic start to expire, the quality of the banks’ credit portfolios is likely to deteriorate, leading to an increase in non-performing loans (NPLs). Stakeholders need to work together to address this challenge. Banks and borrowers experiencing financial difficulties should proactively cooperate to find the most appropriate solutions for their circumstances, while regulators, supervisors and other public sector entities should facilitate a framework for better NPL resolution.

To coordinate the response to the future growth of NPLs in the European Union following the COVID-19 crisis, the European Commission is implementing a comprehensive action plan (1). The plan consists of four pillars covering (i) secondary markets for distressed assets, (ii) asset management companies, (iii) insolvency and debt recovery frameworks and (iv) the implementation of precautionary public support measures. The EBA is one of the key players in the action plan, with the EBA NPL data templates (first issued in 2018) playing a central role among other initiatives in building an effective secondary market for NPLs.
As part of the action plan, in 2021 the EBA is working together with the industry to make the NPL templates more streamlined and user-friendly based on experience with NPL sales from both the sell-side and buy-side perspective. The streamlined and more user-friendly templates will represent the key element of a discussion paper that the EBA will be issuing in 2021 in preparation for turning the templates into technical standards as proposed in the legislative proposal for a Directive on credit servicers and purchasers.

Another focus of the EBA NPL policy work under the action plan in 2021 is on contributing to the Commission’s work on finding suitable approaches for the prudential treatment of purchased NPLs under Article 127 of the CRR. The aim is to align incentives for banks to purchase NPLs on the secondary markets.

Monitoring IFRS 9 implementation and related COVID-19 effects

Key risks and vulnerabilities for the EU banking sector – especially those related to COVID-19 – are to be closely monitored, as are structural vulnerabilities (e.g. asset quality, low profitability, the sovereign-bank nexus, particularly in the light of increased sovereign exposures through public guarantee schemes, and the phasing-out of support measures).

The assessment of banks’ funding plans will also remain a topic of interest in 2021, despite the shift in focus to other topics caused by the COVID-19 crisis.

Figure 2: NPLs in the EU on the path to recovery

NPLs in the EU

ON THE PATH TO RECOVERY

Levels of NPLs

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<td>Levels</td>
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BCBS: Basel Committee on Banking Supervision; ECB: European Central Bank; FBE: forbearance exposures; NPE: non-performing exposures; NPL: non-performing loans.

Data Source: IMF / WB, EBA
A decade ago, the Single Rulebook did not exist. The prudential framework safeguarding the European banking system consisted of a single piece of law relying on minimal harmonisation across the European Union, namely the Capital Adequacy Directive. Those of us in the supervisory business at the time had to attend to our day-to-day activities while also dealing with protests that the playing field was not level. We were always torn between complaints from domestic banks about competition matters and the increasingly complex risk issues that we had to resolve by ourselves, even though they were all similar risks affecting cross-border business.

Now, in 2021 – having witnessed the introduction of the CRD and CRR together with more than 265 new technical standards in the intervening years – we all benefit from a true and reliable Single Rulebook, which makes the banks and their supervisors much better equipped to do their job and focus efficiently on the emerging issues. Not only has it allowed the EU banking system to grow more robustly – capital quality is unchallenged and the prudential ratios have been restored – but supervisors can now spend their time dealing with risks rather than levelling standards.

What is more, the rulebook has even proved comprehensive and dynamic enough for the EBA community to show flexibility in the face of a pandemic. Relief measures have been swiftly accommodated, making it easier for banks to continue lending thanks to a set of common prudential rules.

The EBA is now entering a new phase as it marks its tenth anniversary. The first decade has been a great experience. As it evolves to meet the challenges that lie ahead, the EBA must also learn lessons from the past and maintain its original sense of purpose. The Single Rulebook is interactive and can be flexible and adaptable. The EBA has already adjusted many of its technical standards to take on board evolving business practices, new risks and changing financial stability conditions. This has affected around 10% of the rules. Nevertheless, there is a perception that the Single Rulebook is too large and too complex. To those who make this observation, I generally reply that the rules are kept proportionate to the complexity of each bank’s business, and that the deeper the Single Market, the more the Single Rulebook can be streamlined. Compared with other large financial jurisdictions, the
Supporting the deployment of the risk reduction measures package and the implementation of global standards in the European Union

Supporting the deployment of the risk reduction measures package in the European Union: directives and regulations

Completing the EU securitisation framework

Extending the STS framework to synthetic securitisations

Regulation (EU) 2017/2402 (the Securitisation Regulation) created a framework for STS securitisations that should meet certain quality standards as a condition for being eligible for preferential regulatory capital treatment. The Regulation limited the scope of the STS framework to traditional securitisations and mandated the EBA to produce a report on the feasibility of extending the framework to synthetic securitisations.

In May 2020, the EBA published a report recommending the extension of the STS framework to synthetic securitisations. The report includes (i) STS criteria that follow the structure of criteria for traditional securitisations but also include synthetic-specific requirements and (ii) specific criteria for synthetic securitisations. The report also indicates the pros and cons of applying preferential capital treatment to STS-compliant balance-sheet synthetic securitisations.

In line with the EBA report, the COVID-19 capital markets recovery package agreed by the co-legislators in December 2020, will amend the Securitisation Regulation to introduce the recommended STS framework for balance-sheet synthetic securitisations. The package has also amended the CRR to provide for preferential regulatory capital treatment. This new STS framework is expected to provide a sound basis for promoting synthetic securitisation, which should ultimately assist in enhancing credit institutions’ lending capacity – and thus contribute to addressing the economic consequences of the COVID-19 crisis.

Enabling more risk sensitive determination of capital requirements for securitisation exposures

In May 2020, the EBA published its guidelines on the determination of the weighted average maturity (WAM) of the contractual payments due under the tranche of a securitisation transaction, in accordance with Article 257(4) of the CRR as amended by Regulation (UE) 2401/2017, which introduced the maturity of the tranche as an additional parameter to calculate the capital requirement of securitisation positions held by institutions under the internal ratings-based approach (SEC-IRBA) or the external ratings-based approach (SEC-ERBA). Article 257 offers two alternative approaches to institutions for determining the tranche maturity. This can

European Union certainly benefits from the most transparent and evidence-based rulebook, providing natural flexibility in the way the rules are implemented.

Three crises (*) in a decade... but only one enhanced prudential rulebook, on which we continue to rely and which we will continue to adapt, making it ever-more suited to a well-diversified EU banking sector. And as this sector goes through a challenging but rewarding period of innovation and digitalisation, the rulebook will help ensure that all EU citizens can benefit in a way that is safe and secure.

Securitisation has been a major topic on both the international and EU regulatory agendas for a number of years now, and it will remain prominent given its key role as a funding and refinancing tool for the EU economic recovery, especially in the post-pandemic world. A deep, safe and well-functioning EU securitisation market remains essential to ensuring that the EU economies have access to a reliable and efficient source of funding and that financial risks are broadly and properly distributed across a diversified pool of market players. This latter aspect is crucial for maintaining the capacity of credit institutions in the European Union to originate new loans, in particular loans to households and SMEs, during economic downturns.

It has therefore been very satisfying for us to see that both the new European regulation and the Basel standards on securitisation are built on our recommendations specified in the EBA advice on STS securitisation published in July 2015. Indeed, these recommendations represent a crucial milestone, creating a more resilient and better-regulated securitisation product against the backdrop of the 2007 financial crisis. They are also among the few recommendations to have been adopted not only at EU level but also at international level by the BCBS.

Since the entry into force of the new EU Securitisation Regulation, the team has been working intensively to support the successful implementation of this new framework and to identify the
Monitoring the range of supervisory practices on the recognition of significant risk transfer in securitisations

‘Significant risk transfer’ (SRT) refers to the supervisory framework laid out in the CRR whereby institutions originating securitisations are required to pass certain ‘tests’ before being allowed to claim capital relief in respect of the portfolio of securitised assets. The SRT framework operates to monitor the adequacy of the capital relief claimed by the originator relative to the risk that such originator continues to retain in the transaction. It thus constitutes an essential part of the supervisory framework, as it concerns the safety and soundness of institutions originating securitisations and the integrity of the market.

As SRT tests are set out in high-level terms in Articles 244 and 245 of the CRR, leaving room for divergent interpretations by market participants and competent authorities, the EBA was mandated to monitor the range of supervisory practices in relation to the recognition of SRT and submit a report to the Commission. The report, published in November 2020, included a set of recommendations on the harmonisation of SRT assessments, processes and practices relating to (i) structural features and added safeguards that securitisations should exhibit to facilitate the assessment of SRT, (ii) a more granular definition of the SRT tests laid out in the CRR and a detailed definition of the commensurate risk transfer tests referred to but not defined in the CRR and (iii) a harmonised supervisory SRT assessment process.

Strengthening supervisory practices on the market access of credit institutions

In the context of the Capital Requirements Directive (CRD) review, the EBA was mandated to develop guidelines on a common assessment methodology for granting authorisation as credit institution. The guidelines, which cover the authorisation requirements set out in the EU legal framework, were developed in the course of 2020, and a public consultation was launched in March 2021.

From a methodological perspective, the draft guidelines are aligned with the draft RTS on information for authorisation. They advocate a risk-based approach, pursue the principle of proportionality for all relevant assessment criteria and confirm their neutrality to technology. They thus apply to both traditional and innovative business models and/or delivery mechanisms and underscore the importance of consistency with the supervisory approaches taken in a going concern. The draft guidelines are in line with recent legislative developments, including the specific focus on the need for the applicant to demonstrate sound and effective risk management pursuant to Article 10(2) of the CRD. Finally, the guidelines expressly include guidance on money laundering/terrorist financing (ML/TF) risk, including the importance of cooperation with the AML/CFT supervisor and other public bodies in accordance with Article 117(5) of the CRD.

In developing the guidelines, the EBA identified issues relating to differing interpretations of the concept of a credit institution. The EBA had already examined many of these issues in the context of previous monitoring of the CRD.
perimeter, producing two reports that signalled varying interpretations of the regulatory perimeter. In addition to these issues, the related 2020 EBA opinion also draws attention to variations in practices relating to the scope of authorisation granted by competent authorities and to the types of activities that can be carried by credit institutions under national law.

Leading the development of a new prudential framework for investment firms

In 2020, the new prudential framework for investment firms, consisting of the Investment Firms Directive (IFD) [1] and the Investment Firms Regulation (IFR) [1] figured prominently on the EBA’s agenda. Under the new framework, investment firms will be subject to requirements based on their size and nature, and on the scope of their activities.

The role of the EBA, stemming from the mandates under the IFD and IFR, is to introduce uniform requirements for investment firms authorised under the Market in Financial Instruments Directive (MiFID), and to specify further requirements which are not set out in sufficient detail in the IFD and IFR. The EBA applies the principle of proportionality in implementing all of its mandates.

In this context, to provide an overview of the timeline, process and deliverables for the upcoming regulatory products expected from 2020 to 2025, the EBA published its roadmap on investment firms [1] in June 2020. Subsequently, in December 2020, the EBA published a final report [1] on a first package of regulatory products developed that year. The report specifically relates to seven draft RTS, all of which have a significant impact on the new prudential framework. Overall, 393 individual investment firms and 37 consolidated investment firm groups participated in the exercise, resulting in a total of 430 submissions in the initial sample.

In accordance with the revised definition of a credit institution in the CRR, certain undertakings, depending on their size and activities, will have to apply for credit institution authorisation. The EBA therefore developed draft RTS specifying the information to be provided for obtaining such authorisation. The standards take into account the possibility of providing a simplified set of information where the applicant only intends to trade on own account in financial instruments or to underwrite on a firm commitment basis.

The second draft RTS covered in the final report were developed by the EBA to provide a methodology for measuring the fixed overheads requirement. This is one of three indicators to be used by an investment firm to calculate the own funds requirement. These draft RTS also introduce the notion of ‘material change’.

The EBA also developed draft RTS to specify the methodology for measuring other, quantitative indicators for calculating the own funds requirement (these indicators are known as ‘K-factors’).

In addition further three draft RTS have been developed to provide clarification on specific K-factors. The first of these RTS specify the criteria for identifying the segregated accounts used to measure the own funds requirement in relation to client money that an investment firm holds. The second of the draft RTS relate to the calculation of an adjusted coefficient to measure the risk-to-firm K-factor in relation to an investment firm’s daily trading flow. The standards provide formulae for both cash trades and derivatives. They also enable situations to be identified where adjusted coefficients can be used. Investment firms can use an alternative method, known as ‘clearing margin given’, to calculate the own funds requirement for risk-to-market. The third draft RTS developed by the EBA to clarify K-factors specify the calculation requirements and set the criteria for the avoidance of regulatory arbitrage when this approach is used.


Finally, the IFD allows competent authorities to decide at their discretion to apply the requirements of the CRR to investment firm trading on own account or to underwriting on a firm-commitment basis. This discretion may be used where the investment firm in question meets certain criteria and has the potential to raise financial stability concerns. The EBA developed draft RTS to ensure a consistent application of this provision across Member States.

During 2020, the EBA also consulted on another two draft RTS. The first of these relate to the calculation of the thresholds for an investment firm to be required to apply for a credit institution authorisation. The second draft RTS concern the scope and methods of prudential consolidation of investment firm groups. Both of these draft RTS will be finalised in 2021.

From next year, investment firms authorised to provide services under Directive 2014/65/EU will have to comply with new rules on capital and liquidity, concentration risk, internal governance and remuneration, transparency, and reporting requirements, as the new prudential framework [1] becomes applicable. The new framework is aimed at creating appropriate and suitable requirements for investment firms taking into account their size, the services they provide, the activities they perform and the risks they are either exposed to themselves or that they pose to others. With this in mind, the new framework establishes a new categorisation of investment firms and applies a different level of requirements depending on the category. This approach will also contribute further to a level playing field in the EU investment firms sector.

While requirements will be simplified for the smallest investment firms, systemic and bank-like investment firms will remain subject to the full CRR/CRD regime. Proportionality and harmonisation of the new framework were the key elements that the EBA emphasised from the outset in 2015, when it led the response to the European Commission’s call for advice on the prudential requirements applicable to investment firms laid down in the regulations applicable to credit institutions.

Therefore, in 2020, when we developed a number of regulatory products to supplement the new prudential framework, we also focused strongly on proportionality and harmonisation aspects. Our work led to the delivery of the seven key RTS relating to the reclassification of certain investment firms to credit institutions and to capital requirements for investment firms at solo level, which will together represent an important contribution to the new prudential framework as a whole.

I believe that, when developing new regulatory products, the most important task for us as the policy experts at the EBA is to ensure that the entire process guarantees informed decision-making. This is why it is important to ensure interaction with as many stakeholders as possible and obtain their views during public consultations, assessments and discussions of relevant policy and technical issues, and to consider carefully the impact of the decisions for the whole investment firms sector. In this context, we have launched several public consultations and public hearings with stakeholders, as well as running workshops with competent authorities to address regulation questions. A substan-
Completing the EU implementation of standards on internal models for market risk

In 2020, the EBA completed its work leading to a sound implementation of the internal model approach (IMA) under the fundamental review of the trading book (FRTB) rules by publishing three RTS. The first specify how institutions are to map risk factors to the appropriate liquidity horizons. The second are for making operational the backtesting and P&L attribution requirements. The third are for ensuring a sound assessment of the risk factor modellability. Once adopted by the European Commission, these RTS, which cover 11 mandates for the EBA in the CRR, will trigger the three-year period after which institutions with FRTB-IMA approval will be required to report the own funds requirements obtained with their internal models.

The EBA also launched consultations on a number of regulatory products in 2020, namely (i) the draft RTS on foreign exchange (FX) and commodity risk in the non-trading book, (ii) the draft RTS on the calculation of the stress scenario risk measure (SSRM) for non-modellable risk factors (NMRFs), (iii) the guidelines on data inputs for modellable risk factors and (iv) the draft RTS on probability of default (PD) and LGD requirements under the FRTB-IMA framework. The first two of those products were finalised following the consultation period and published on the EBA website in December.

The deliverables achieved in 2020 provide the basis for smooth implementation of the FRTB-IMA in the European Union.

Outlining a methodology for capitalising non-modellable risk factors

In December 2020, the EBA published the final draft RTS on the calculation of the SSRM for capitalising NMRFs. The RTS represent a key milestone in the EBA work programme on the FRTB and reflect, where appropriate, the feedback received on the consultation paper published the same year.

The methodology outlined in these RTS provides institutions with a precise and straightforward approach for capitalising risk factors that have failed to meet the modellability criteria. It will thus ensure legal certainty in the European Union on the level of capital that institutions are to hold for their non-modellable risk positions for both EU credit institutions and competent authorities.

The methodology designed by the EBA for capitalising non-modellable risk factors is the result of a long iterative process that began in December 2017 with the discussion paper on the EU implementation of revised market risk and counterparty credit risk standards. In preparing the paper, the EBA was able to draw on input from market participants on several occasions. To calibrate its methodology, the EBA analysed data on almost 50,000 risk factors. These were gleaned from an extensive data collection exercise launched in 2019.

The methodology is intended to be applicable to any kind of risk factor an institution may have in its portfolio. It reduces the computational burden to the minimum necessary to ensure an appropriate level of capitalisation in line with the targeted level of conservatism provided for in the FRTB standards.

Although we have sought to ensure smooth transposition in developing the new regulatory products, we understand that 2021 will be challenging for investment firms, since they will have to make the transition from the current CRR/CRD regime to the new prudential framework. However, once investment firms put the new framework into practice, they will benefit from simplified rules and requirements.
Ensuring the harmonised implementation of structural FX in the EU

In 2020, the EBA finalised its work on the guidelines on structural FX. These guidelines are particularly relevant from a harmonisation perspective, as the related provision in Article 352(2) of the CRR was subject to several interpretations across both supervisory authorities and institutions. As a result, the permission to waive structural positions had been granted unevenly across jurisdictions.

The guidelines clarify the scope of the positions that can be considered as structural. They also set out clear rules for assessing whether positions have been deliberately taken to hedge the capital ratio. In addition, they set governance and risk management requirements that institutions should meet to support the structural and hedging nature of the position for which the waiver is sought. Finally, they identify the maximum open position that can be excluded from the net open position, envisaging a specific treatment for items that are held at historical cost and items that are deducted from CET1.

The guidelines also take into account changes to the market risk framework introduced in CRR 2 and the new structural FX treatment envisaged in the FRTB standards. As a result, the guidelines have been designed in such a way that institutions will not be required to ask for new permission once they switch to the FRTB framework for computing the own funds requirements for market risk.

Their application date is 1 January 2022. All competent authorities in the EU have notified the EBA of their compliance or intention of compliance by the application date. The EBA will keep monitoring the implementation of the guidelines and stands ready to support competent authorities in doing the same.

I joined the EBA’s Own Funds Team at the end of 2017, when the regulatory framework had been completed and the work of the Authority moved from policymaking to implementation. The assessment of capital instrument issuances has been always high on the agenda of the EBA, which acts as a forum where competent authorities can exchange views on innovative features and new trends in own funds instruments. The team has dedicated considerable effort to assessing pre-CRR CET1 instruments issued by EU institutions, a project that has been running for four years and which also owes much to the crucial commitment and resources of the competent authorities. Experts have reviewed an impressive number of documents relating both to governing laws and institutions’ bylaws. As a result of these activities, bold and necessary actions have been taken. For instance, provisions governing the instruments have been amended, providing assurance to issuers and holders on their quality and ability to absorb losses. In addition, the Own Funds Team monitors market developments and can react swiftly to assess the impact of new features and clauses on the eligibility of instruments as regulatory capital.

The guidance that we have been providing, via EBA monitoring reports and Q&As, has indisputably led to increased standardisation of the terms and conditions of AT1 issuances and, more recently, TLAC/MREL issuances, thus reducing the complexity of hybrid instruments. This has in turn promoted further convergence. Similar efforts are being made with regard to issuances of ESG bonds, and specific guidance

ENGAGING CONSTRUCTIVELY WITH STAKEHOLDERS TO PROMOTE FURTHER CONVERGENCE

EFI BOULI
Senior Policy Expert
will soon be provided on the interaction between the clauses used for ESG issuances and the eligibility criteria for own funds and eligible liabilities instruments.

Finally, we addressed the issue of legacy instruments by reiterating that the generous grandfathering period until the end of 2021 was introduced by the CRR in order to give banks sufficient time to build their capital in accordance with the new regulation and to take out legacy instruments. The opinion we published serves as a basis for establishing common rules on the treatment of legacy instruments, and we are determined to follow closely how our guidance is implemented by institutions across the European Union.

I enjoyed contributing to many of the Own Funds Team’s projects and leading some of them. Our constructive interaction with the competent authorities is a concrete example of how the EBA can deliver convergence by engaging with all its stakeholders. This has been always a very rewarding experience.

**Finalising the technical standards for eligible liabilities and ensuring alignment with own funds standards**

The adoption of Commission Delegated Regulation (EU) No 241/2014 in 2014, also known as the RTS on own funds, was a milestone in the development of the regulatory framework for own funds, as it incorporated 20 existing standards further specifying relevant CRR provisions.

CRR 2, published in June 2019, maintained the essential provisions on which the RTS are based, updated some of the terminology and integrated a number of rules that were previously governed by the RTS, such as general prior permissions for reducing own funds. As a result, the RTS needed to be updated.

In addition, CRR 2 mandates the EBA to further specify criteria for total loss-absorbing capacity (TLAC) and minimum requirement for own funds and eligible liabilities (MREL) instruments, in particular with regard to direct and indirect funding, incentives to redeem, the notion of sustainable replacement terms and the prior permission regime for the reduction of those instruments. As many criteria for own funds and eligible liabilities converge (e.g. the prohibition of direct or indirect funding by issuing entities or the restrictions on incentives to redeem), the EBA was required to ensure ‘full alignment’ across both sets of instruments. More generally, the EBA sought to ensure consistency across own funds and eligible liabilities instruments where they contain similar loss-absorbency features.

Following the public consultation in the spring and summer of 2020, the draft revised RTS were discussed at technical level in the last quarter of 2020 and are now being finalised with a view to delivering them to the European Commission by mid-2021.

**Continuing the monitoring of own funds instruments and TLAC/MREL issuances, with extended guidance on green issuances**

The EBA has been continuously monitoring the quality of CET1 issuances in the EU since 2013. This work continues to progress, and at present the focus is on cooperating with competent authorities to review CET1 instruments that were issued before the CRR came into force. In the same vein, and in line with Article 26(3) of the CRR, the EBA publishes regular updates to its CET1 list, which contains all forms of capital instruments in each Member State that qualify as CET1. The main results of this work are summarised and presented in the CET1 report. An updated version of this report is planned to be issued in the course of 2021.

Given that the EEA Joint Committee decision incorporating the CRR entered into force on 1 January 2020, the EBA has been also assessing the changes that need to be applied to the EBA’s CET1 list in order to include capital instruments from the relevant jurisdictions, namely Iceland, Liechtenstein and Norway.

In addition, the EBA has continued its monitoring of Additional Tier 1 (AT1) instruments as mandated under Article 80 of the CRR, focus-
Following the successful publication of the first AT1 report in 2014 and subsequent updates in 2015, 2016 and 2018, the EBA is expected to publish the next version in 2021. The main observations and policy recommendations in these reports promote higher standards of market practice and further harmonise terms and conditions in transaction documentation, not only in the context of AT1 instruments but also for other tiers of own funds, i.e. Tier 2 issuances or eligible liabilities.

In addition, since AT1 instruments are subject to a minimum holding period of five years, and given that, in 2018, this period expired for the first issuances passed, the EBA has begun to monitor the calls exercised in order to observe market practices and issue policy recommendations in this regard.

In 2021, as highlighted in its TLAC/MREL monitoring report in 2020, the EBA will provide guidance in this area. The purpose of this guidance will be to give an overview of the risks identified, provide the EBA’s views on the interaction between ESG capital issuances and the eligibility criteria for own funds and eligible liabilities instruments in the CRR and ultimately to identify best practices, or practices/clauses that should be avoided by banks issuing ESG bonds for capital purposes.

Adjusting the prudential treatment of software assets

In October 2020, the EBA published the draft RTS setting out the methodology to be adopted for the purpose of the prudential treatment of software assets, following the amendments introduced as part of the risk reduction measures package. In developing these RTS, one of the steps taken by the EBA was to investigate the recoverable amount of software in concrete cases of past transactions involving the EU banking sector. However, the evidence collected showed that it is not possible to identify a specific category of software that would preserve its value even in a gone concern scenario, since all software assets have the same likelihood of being written off. In addition, even in cases where the value of software is at least in part preserved, generally its useful life is revised in order to account for the fact that it will be kept in use only until the end of the migration process.

In the light of these considerations, the draft RTS introduce the prudential treatment of software assets based on their amortisation.
In the EBA’s view, this strikes an appropriate balance between, on the one hand, the need to maintain a certain margin of conservatism in the prudential treatment of software assets, especially given their limited recoverable value in a gone concern scenario, and, on the other hand, their relevance from a business and economic perspective. In addition, the EBA will closely monitor the evolution of the investments in software assets, including the link between the revised prudential treatment and the need for EU institutions to make the necessary information technology (IT) investments in areas such as cyber risk and digitalisation.

**Developing new measures to build an all-inclusive large exposures regime in the European Union**

The risk reduction measures package adopted by the European legislators in 2019 included new measures in the area of large exposures. One of the main aims of the package was to further align the European framework with the Basel standard on large exposures (‘LEX’). Banks in the European Union can thus benefit from further clarity on the regulatory framework while at the same time aligning their operational procedures to standards adopted in other markets outside the European Union.

The EBA has directed part of its efforts in 2020 towards enhancing the large exposures framework. Under a host of new mandates in the risk reduction measures package, the EBA has developed RTS to calculate indirect exposures arising from derivatives and credit derivatives contracts. It has also developed guidelines to help banks operationalise the new mandatory substitution approach for exposures collateralised by the market value of tri-party transactions. In 2021, the EBA will continue expanding the large exposures framework.

An exposure can also arise when a bank’s client issues the underlying debt or equity instrument of a derivative or credit derivative contract entered into with a third party that is not the bank’s client. For such cases, the EBA has developed a methodology to facilitate the calculation of such exposures. The methodology is consistent with current market risk rules and, in particular, with the jump-to-default (JTD) approach. This will help increase certainty in the application of the rules in view of the interactions between both frameworks.

Meanwhile, to simplify the management of large exposures, the EBA published guidelines specifying the conditions to be met if banks want to replace their exposures to collateral issuers arising from tri-party transactions. In such a case, banks can instruct tri-party agents to set a limit to those exposures. This replacement, known as ‘the alternative treatment’, is aimed at facilitating the application of the substitution approach, which is now mandatory under the revised CRR rules. Banks still need to add those specific limits to other exposures to the same collateral issuer and ensure that they don’t breach the limit of 25% of their Tier 1 capital in exposures to the same client or group of connected clients.

**Monitoring the implementation of global standards (Basel III)**

**Ensuring the safe and smooth functioning of the EU banking system**

The implementation of global standards in the European Union is key to the development of the Single Rulebook. By regularly assessing and monitoring the potential impact on the EU banking sector of implementing international banking regulation and/or best practices, such as the proposals of the BCBS, the EBA can make proposals to the European Commission on items of EU regulation that address the specificities of the EU banking system and ensure its safe and smooth functioning.

The EBA reports regularly on the Basel III monitoring exercise. In doing so, it analyses the impact of the final Basel III rules on European credit institutions’ capital and leverage ratios and estimates the shortfalls that would result from a lack of convergence with the fully implemented Basel III framework. In December 2020, the EBA published a report on monitoring the impact of implementing...
the final Basel III regulatory framework in the European Union, using data as of December 2019. The report contains a breakdown of the impact on the total minimum required capital arising from credit risk, operational risk, leverage ratio reforms and the output floor.

In the same month, the EBA published a report on liquidity measures using data as of December 2019 and June 2020. The report monitors and evaluates the liquidity coverage requirements currently in place in the EU. It presents a thorough analysis of the LCR levels and their composition by country and business model, as well as giving a more in-depth analysis of potential currency mismatches in LCRs.

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

In November 2020, in response to a call for advice from the European Commission, the EBA published a report on the benchmarking of national loan enforcement frameworks across EU Member States. The report introduced the first-ever set of EU benchmarks for bank loan recovery and identified areas where the divergence in the EU national insolvency regimes is particularly wide. In addition, the report provided an overview of the characteristics of insolvency regimes that help explain the differences across the European Union. The EBA and the NCAs collected, for the first time, loan-by-loan data on loans under insolvency proceedings from more than 160 banks located in 27 Member States. The sample of loans under enforcement comprised more than 1.2 million loans, divided into the following asset classes: corporates; SMEs; commercial real estate (CRE); residential real estate (RRE); retail – credit cards; and retail – other consumer loans. The reference date for the data is the period before December 2018. The ratio of total assets of the banks participating in the exercise to the total assets of the respective banking sectors is, on average, above 30% for all asset classes considered. EU benchmarks were calculated by asset class for recovery rates (gross and net), time to recovery and judicial cost to recovery.

The Commission requested the report on the benchmarking of national loan enforcement frameworks across EU Member States as a follow up to the Council’s action plan to tackle non-performing loans (NPLs) in Europe. This is in the wider context of the communication on completing the banking union, and of the longstanding and ongoing work towards delivering the capital markets union (CMU).
Figure 4: Recovery rates (gross and net), time to recovery and judicial cost to recovery by asset class (EU27 simple average: two indicators)[1]

<table>
<thead>
<tr>
<th>Asset class</th>
<th>Gross Recovery Rate (%)</th>
<th>Net Recovery Rate (%)</th>
<th>Time to Recovery (years)</th>
<th>Judicial Cost to Recovery (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Simple Average at loan level</td>
<td>Simple Average by country</td>
<td>Simple Average at loan level</td>
<td>Simple Average by country</td>
</tr>
<tr>
<td>Corporates</td>
<td>40.4</td>
<td>44.6</td>
<td>36.8</td>
<td>41.6</td>
</tr>
<tr>
<td>SMEs</td>
<td>33.8</td>
<td>41.4</td>
<td>31.5</td>
<td>39.6</td>
</tr>
<tr>
<td>RRE</td>
<td>46.1</td>
<td>53.5</td>
<td>43.9</td>
<td>51.3</td>
</tr>
<tr>
<td>CRE</td>
<td>42.2</td>
<td>50.9</td>
<td>38.4</td>
<td>49.1</td>
</tr>
<tr>
<td>Retail – credit cards</td>
<td>25.2</td>
<td>52.1</td>
<td>21.0</td>
<td>48.7</td>
</tr>
<tr>
<td>Retail – other consumer loans</td>
<td>38.2</td>
<td>41.7</td>
<td>32.9</td>
<td>38.3</td>
</tr>
</tbody>
</table>

[1] To create the EU27 benchmarks for the recovery rates (gross and net), time to recovery and judicial cost to recovery for each asset classes, the simple averages are calculated in two different ways. The main ‘simple average at loan level’ (shown in Table 1 and in additional tables of the report) is based on the total number of observations per variable (i.e., a simple average over the total number of loans in the 27 EU Member States), and it is therefore influenced by the EU Member States with the highest number of observations in the sample. In contrast, the ‘simple average by country’ is calculated as a simple average of all EU Member States’ simple averages and it is therefore less biased towards the countries with the highest number of observations.

Managing this important project allowed me to work with a great team, publishing for the first time in the European Union a unique set of benchmarks and analysis on national loan enforcement frameworks. From the outset, responding to the European Commission’s call for advice posed a number of challenges, not only for the EBA team but also for the national authorities, demonstrating immediately why an analysis of this kind has never been carried out previously, despite its importance for the European Union. To provide, in 2020, a rich and unique set of benchmarks based on loan-by-loan data, the EBA team had to draw on all the experience acquired over many years in developing and publishing other regular EU benchmarks – a process in which I had also played an active role. In addition, we produced a quantitative analysis of the characteristics of enforcement regimes that help explain the differences in recovery outcomes across the European Union. Given the unique data set and its comprehensive analysis the report was very well received, attracting attention across the EU and beyond. My participation in this endeavour, working together with other colleagues in the team, allowed me to continue developing management skills, increasing my awareness of the role I play within the EBA team when striving to achieve ambitious goals.
Providing efficient methodologies and tools for supervisory convergence and stress testing

**Monitoring the implementation of the accounting and prudential regulatory framework with support from benchmarking tools**

When the CRR entered into force, ‘grandfathering’ provisions were introduced. This meant that certain capital instruments, which did not at the time meet the requirements set out by the new definition of own funds, were exempted from those requirements for a transition period. The EBA issued an opinion in 2020 to clarify the prudential treatment of these ‘legacy instruments’ given the end of the grandfathering period on 31 December 2021. In this opinion, the EBA proposes policy options to address the ‘infection risk’ created by such instruments, i.e. the risk that other layers of own funds or eligible liabilities instruments may be disqualified. The EBA’s recommendations are aimed at ensuring the high quality of capital for EU institutions and the consistent application of rules and practices across the Union.

When reviewing EU institutions' legacy instruments and examining the clauses that led to their grandfathering, the EBA identified two main issues that could create infection risk. The first issue relates to the flexibility of the distribution payments principle, while the second regards clauses that might contradict the eligibility criterion of subordination. Legacy instruments will be subject to different tests determining whether they can be cascaded down to a lower category of capital or classified as eligible liabilities instruments without creating infection risk.

To address the infection risk and preserve the quality of regulatory capital, the EBA envisaged two main options in the opinion. The first was that institutions could either call, redeem, repurchase or buy back the relevant instrument; the second was that they could amend the terms and conditions. In a limited number of cases, where institutions were able to demonstrate to their competent authorities that neither of these two options could be pursued, and taking into account all the relevant circumstances, the EBA also considered a third, ‘last resort’ option. This would allow institutions to keep the legacy instrument in their balance sheet as a non-regulatory instrument, i.e. it would be excluded from regulatory own funds and TLAC/MREL instruments.

Shortly after the publication of the opinion, competent authorities initiated discussions with institutions in an effort to identify the legacy instruments that might create infection risk and the measures planned in order to address this risk.

In 2021, the EBA will monitor the treatment of the legacy instruments, placing a particular focus on the use of the proposed options by institutions across jurisdictions with a view to ensuring consistent application. In addition, the EBA will consider the transposition of specific provisions of Directive 2014/59/EU into national legislation and how this might alleviate concerns about the existence of infection risk linked to subordination aspects.

**Continuing the monitoring of IFRS 9 implementation and the benchmarking of modelling practices for estimating expected credit losses**

A sound and comprehensive understanding of IFRS 9 implementation, particularly with regard to banks’ modelling practices for estimating expected credit losses, is a key focus area for the EBA. It therefore carries out dedicated monitoring activities in this regard.

In 2020, the EBA continued these monitoring activities using a set of IFRS 9 indicators specifically developed for this purpose and monitored on a continuous basis. In addition, in the context of the IFRS 9 benchmarking exercise, a qualitative survey was developed and conducted among a sample of EU institutions. This allowed modelling practices to be assessed and provided further insights on the quantitative data collected for low-default portfolios (LDPs). These insights will be included in the relevant implementing technical standards (ITS) in 2021.
Following the staggered approach envisaged in the IFRS 9 roadmap (1), additional parameters (e.g. LGD) will be integrated in accordance with the revised ITS, following on from the latest published consultation paper. In addition to the benchmarking exercise, a follow-up qualitative questionnaire focusing mainly on governance, classification/measurement and prudential aspects was also conducted among the same sample of institutions, providing a complete overview of the practices around the standard as a whole [rather than focusing only on the modelling aspects].

As a next step, the EBA will benchmark the data submitted via the ITS 2021, which will be the first reporting [via ITS] already integrating IFRS 9 parameters (focusing on the PD for LDPs). In the medium term, high-default portfolios (HDPs) are also planned to be integrated into the scope of the ITS (phase 2 of the project according to the IFRS 9 roadmap).

Continuing the monitoring of the internal ratings-based (IRB) models for credit risk and market risk with the benchmarking exercise

In 2020, the EBA conducted its annual supervisory benchmarking (SVB) exercise to identify outliers in the calculation of RWAs using internal models. The comparison of risk parameters across European banks allows supervisors to identify possible sources of differences. Where these are not justified, the necessary policy actions are triggered to improve convergence and promote disclosure. Since 2015, such a comparison has formed part of yearly SVB exercise, in accordance with Article 78 of the CRD, which sets out requirements for institutions, competent authorities and the EBA concerning the establishment of a regular SVB process to assess the internal models used to compute own funds requirements (with the exception of operational risk). Following each of these exercises, the EBA has published horizontal reports summarising the main findings for credit risk and market risk.

The most challenging aspect of comparative RWA studies is distinguishing the influence of risk-based drivers from that of practice-based drivers.

With respect to credit risk, the 2020 exercise considered a more homogeneous sample of portfolios for the first time, looking specifically at (a) specialised lending exposures [SLE] portfolios and (b) the size of the counterparty in terms of annual turnover. This allowed the large corporates [LCOR] portfolio to be split in order to monitor the impact of the revised scope of the Basel standard. Lastly, for HDPs, the retail portfolios consumer credits [RETO] and qualified revolving exposures [RQRR] were introduced. Of particular interest was the analysis of variability stemming from the use of the four different regulatory approaches available for SLE portfolios [standard approach [SA], foundation IRB (FIRB), advanced IRB (AIRB) and slotting (i.e. specialised lending slotting criteria, SLSC)]. In line with the expectation, the analysis shows that the average risk-weight consumption of SLE exposures is lower for exposures under AIRB than for those under FIRB or those under the SLSC. In addition, the median risk weight calculated as if using the SA echoes the more significant impact which is expected for SLE portfolios under the IRBA following the implementation of the finalised Basel III reform.

The analysis on the newly introduced split for the LCOR portfolios confirms that about three-quarters of the exposure at default (EAD) of this benchmarking exposure class [LCOR] is going to be shifted to the FIRB approach under the revised Basel reform.

The results of the usual benchmarking analyses were largely comparable to those in the previous exercises, which can be seen as an indication of the general stability of bank portfolios and internal model outcomes.

With respect to market risk, the 2020 exercise considered the same instruments as those applied in 2019, which are mostly plain vanilla. This consistent approach made it easier to understand the benchmarking portfolio and contributed to an observed reduction in overall dispersion. However, the variability increases with the risk metric’s complexity, and stressed value at risk, incremental risk charge and all price risk show higher levels of dispersion. In addition, the 2020 report enhanced the data analysis by means of breakdowns across a number of dimensions such as bank size, business model and stress period. The 2020 report also introduced statistics on portfolios’ present values.

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The details of the annual benchmarking exercises are included in the ITS that specify the benchmarking portfolios and reporting instructions to be applied. In May 2020, the EBA published its annual update to these ITS, defining the benchmarking portfolios for the 2021 benchmarking exercise.

On the credit risk side, the main element of the consultation was the inclusion of data fields for the purpose of monitoring the variability that is due to different levels of conservatism. An appropriate ‘margin of conservatism’ is required by the CRR, but conservatism may also be applied via add-ons or floors, which are imposed by the supervisor due to deficiencies in the models.

On the market risk side, further clarifications were provided in the ITS to enhance understanding of the benchmarking instruments and to limit variability stemming from data quality issues. Overall, the composition of the portfolio was the same as in the 2019 exercise.

The overall results of the benchmarking review on RWAs form a key input for the work on the variability of own funds requirements stemming from IMAs.

Improving stress testing as a tool for the supervisory review and evaluation process (SREP) and for assessing the resilience of deposit guarantee schemes

In 2020, the EBA fulfilled its mandate under Article 4(10) of the Deposit Guarantee Schemes Directive (DGSD) to perform the first peer review of the resilience of national deposit guarantee schemes (DGSs) across the EU. The EBA analysed the results of stress tests conducted by the national DGSs and concluded that the overall resilience of the DGSs is ‘fair’, which is the second-best result possible under the agreed assessment methodology and means that any shortcomings identified by the DGSs are unlikely to affect their ability to perform their tasks. The peer review also concluded that the DGS stress testing framework would benefit from improvements to enhance the comparability and consistency of reported outcomes. Therefore, in 2020, the EBA began a review of the existing EBA guidelines on the stress testing of DGSs, with the aim of issuing revised guidelines in 2021.

Figure 5: Enhancing the resilience of DGSs
Fostering consistency through the implementation of the EBA 2020 convergence plan

The EBA contributes to enhanced supervisory convergence across the Internal Market, playing an active role in building a common supervisory culture and fostering consistent supervisory practices throughout the Union.

In order to drive the convergence efforts, the EBA publishes an annual convergence plan that includes selected topics for prudential supervisory scrutiny based on its expertise in EU-wide risk analysis and policy development. The key topics are selected with the aim of helping to inform competent authorities’ planning processes. In 2020, these topics were: (i) information and communication technology (ICT) risk and operational resilience; (ii) loan origination standards; (iii) profitability; (iv) capital and liability management and (v) ML/TF risk/conduct risk for prudential supervisors.

The EBA observed that supervisors took into account the key topics of the EBA 2020 convergence plan in their supervisory work. However, the implementation of the plan was affected by the reprioritisation of supervisory activities resulting from COVID-19, so that the five key topics received different degrees of supervisory attention.

As the focus switched to the response to COVID-19, increased supervisory attention was devoted to the assessment of profitability, business model and asset quality, and selected areas of ICT risk and operational resilience. The EBA observed that competent authorities continued in their efforts to cooperate with their resolution authority counterparts on institutions’ ability to meet their MREL targets.

In addition, prudential supervisory practices have also been converging in the context of ML/TF risk, as information received from AML/CFT supervisors increasingly feeds into prudential supervisory processes, and in particular into the SREP.

Loan origination received less supervisory attention as COVID-19 led to a shift in focus within the ‘life cycle’ from loan origination to the management of distressed debtors and to the monitoring of risk exposures. This re-focusing of supervisory attention is consistent with the EBA’s pragmatic SREP guidelines, which identify credit risk management as a key topic for 2020. Nevertheless, loan origination practices should remain an area of attention for supervisors for 2021 and beyond.

Promoting an operational framework for resolution

Developing and monitoring progress in resolution planning

The process of enhancing the framework for the development of feasible and credible plans to resolve failing banks remained a focus for the EBA in 2020. One core task involved delivering on mandates for regulatory products contained in the BRRD 2 (Directive (EU) 2019/876). These products addressed contractual requirements governed by third country law. The three products delivered to the European Commission by the target date of 31 December 2020 were:

- RTS on contractual recognition of stay powers;
- RTS and ITS on impracticability of contractual recognition of bail-in powers.

In addition to producing the mandated regulatory products, the EBA devoted significant attention to refining and improving the broader crisis management framework in the European Union. For example, it expanded the handbook used by resolution authorities to provide a structure for assessing institutions’ management information systems in the context of the resolvability assessment. The objective here was to ensure that data and information are swiftly produced to support a robust valuation for resolution.

Meanwhile, the Annual Report on Resolution Colleges 2019 was published on 1 September 2020. This report set out the EBA’s observations on progress achieved in the organisation and functioning of resolution colleges. In this publication, the EBA also provided guid-
In the pre-resolution phase, the EBA carried out an analysis of the interlinkages between recovery and resolution plans to identify common elements and mutual impacts. This analysis sought to avoid inconsistencies between the respective contents of the plans and reduce the risk that competent and resolution authorities might send conflicting requests to institutions or take contradictory actions. The EBA also launched a public discussion on the application of early intervention measures with the aim of enhancing crisis management tools available to supervisors in a pre-resolution phase. The discussion paper analyses challenges in the implementation of the BRRD early intervention framework and suggests possible solutions to address them.

In recognition of the variety of institutions that fall within the scope of the crisis management framework and the fact that there cannot be a ‘one size fits all’ solution, the EBA also published its second report on the application of simplified obligations and waivers under the BRRD. This report presents an overview of how competent and resolution authorities have applied the principle of proportionality in recovery and resolution planning.

**Figure 6:** Roadmap for the delivery of the EBA mandates on resolution
Developing and monitoring loss absorption capacity

As part of the risk reduction measures package, EBA started delivering on its mandates related to MREL and published the following draft technical standards:

- RTS setting out a methodology to estimate own funds requirements in cases where the prudential perimeter differs from that of the resolution group – typically in the case of institutions with multiple point of entry resolution strategies. These RTS provide a framework for dialogue between institutions, competent authorities and resolution authorities to refine the calibration of MREL.

- ITS to specify forms and procedures for resolution authorities to report MREL decisions to the EBA. This will support the EBA’s work in monitoring (i) the progress of authorities in taking MREL decisions under the new framework and (ii) measures taken by institutions to close shortfalls against these requirements.

In addition, under Article 45f (6) of the BRRD, on 27 July 2020 the EBA consulted on draft RTS to specify methods to ensure that instruments eligible for meeting the requirement for own funds and eligible liabilities, issued by a subsidiary through an intermediate parent and indirectly subscribed to by the resolution entity (ultimate parent), do not hamper the smooth implementation of the resolution strategy.

Ensuring effective cooperation with third countries

The main goal of equivalence in EU financial services legislation is to effectively manage the cross-border activities of financial market players in a sound prudential environment by promoting consistency and mutual compatibility between the relevant parts of the EU framework and the corresponding rules in third countries. The EU equivalence policy also helps promoting regulatory convergence around internationally recognised standards.

Assessing the equivalence of third countries’ regulatory and supervisory frameworks

Over the past few years, the EBA has been assessing the equivalence of third-country frameworks, both for confidentiality provisions, to facilitate non-EU authorities’ attendance in EU supervisory colleges, and for the regulatory and supervisory framework, providing its technical advice to the European Commission as input into the Implementing Decision on equivalence. In 2020, the EBA finalised its assessment of the regulatory and supervisory framework of a number of third countries, making use of a consolidated methodology based on a well-balanced mix of off-site review and on-site visits.

Since the international regulatory framework – as well as the EU one – develops continuously over time, equivalence is not a permanent state. Therefore, it is relevant to assess whether a certain equivalence decision continues to fulfil the EU objectives for which it was taken or whether it might raise new risks for financial stability, market integrity or investor protection. The role of the EBA in equivalence monitoring was already reflected in the European Commission’s Implementing Decision, which establishes that the European Commission, with the assistance of the EBA, ‘will continue monitoring on a regular basis the evolution of the supervisory and regulatory arrangements of third countries’.

In addition, Article 33(3) of the EBA Regulation recognises an explicit role for the EBA in the monitoring of equivalence decisions, as the Authority is required to monitor ‘relevant regulatory and supervisory and, where applicable, resolution developments […] and market developments in third countries to the extent they are relevant to risk-based equivalence assessments’.

Given its role in the monitoring of third-country equivalence, in 2020 the EBA developed a dedicated methodology for this exercise, taking into account that monitoring does not
constitute an assessment in itself but a follow-up to the equivalence assessment. Nevertheless, the monitoring should verify that the same principles underpinning the criteria employed for standard equivalence assessment are also reflected in the monitoring exercise. Thus, the monitoring of an equivalence assessment must meet two main requirements, namely:

- **consistency** – monitoring whether the supervisory and regulatory framework still fulfils the criteria on which the equivalence decision was taken (approximately a five-year cycle);
- **identification of recent developments**, both in terms of the evolution of the regulatory and supervisory framework, and in terms of risks, challenges and new trends in the financial and banking sectors.

The questionnaire developed for the monitoring is a simplified version of the main questionnaire used for the standard assessment. The principal purpose of the information obtained by this methodology is to ensure that the main pillars of the EU regulatory framework are still present in the third country, as well as to identify possible deviations from Basel standards and any evolution of the regulatory framework in the last five years.

### Negotiating cooperation agreements

The experience gained by the EBA in carrying out the assessment of equivalence of third countries has highlighted the importance of establishing dedicated arrangements to (i) facilitate effective cooperation and the exchange of information and (ii) enable follow-up monitoring. In 2020, the EBA began negotiating a dedicated memorandum of understanding with some third-country authorities. The focus here was on cooperating and sharing information on the regulatory regime, the supervisory approach, relevant market developments and any changes that might affect the decision on equivalence.

In 2021, the EBA will approach some third countries whose regulatory and supervisory framework is already equivalent, with the aim of conducting the monitoring exercise and negotiating dedicated cooperation arrangements. In addition, other jurisdictions that have not yet been assessed will be considered for the first-time assessment.

### Nurturing a culture of good governance in financial institutions

#### Developing a governance and remuneration framework for investment firms

In 2020, under a mandate set out in the Investment Firms Directive (IFD), the EBA, in cooperation with the European Securities and Markets Authority (ESMA), published a consultation paper on draft guidelines concerning the governance arrangements for class 2 investment firms (which does not include firms that are small and non-interconnected).

The Directive, which will be implemented by Member States by 26 June 2021, requires class 2 investment firms to have robust governance arrangements, including a clear organisational structure with well-defined, transparent and consistent lines of responsibility, processes and mechanisms. These requirements are in addition to those that already exist under MiFID.

The EBA’s draft guidelines provide further details on how the governance provisions should be applied by class 2 investment firms. They specify the tasks, responsibilities and organisation of the management body, and the organisation of investment firms. This includes the need to create transparent structures that allow supervision of all of these firms’ activities. The guidelines also specify requirements...
aimed at ensuring the sound management of risks. As far as possible, the guidelines are consistent with the existing guidelines under MiFID, while taking into account the principle of proportionality and the diverse range of class 2 investment firms.

Additional details are provided on the application of governance policies in a group context. It is particularly important for investment firms’ groups to have all risks under control and to maintain a holistic enterprise-wide view of all their risks.

Finally, the draft guidelines reflect the specificities of investment firms taking into account the MiFID framework. While all investment firms are required to have a permanent and effective compliance function, not all investment firms are required to have risk management and internal audit functions, provided the absence of such functions is justified. However, investment firms must always at least have policies and procedures in place that ensure the sound management of risks. Regarding the internal audit function, the draft guidelines provide for more flexibility, e.g. investment firms can make use of group audit functions or external auditors.

In the area of remuneration, in accordance with further mandates set out in the IFD, the EBA published two final draft RTS. These concern (i) the criteria to identify all categories of staff whose professional activities have a material impact on the investment firm’s risk profile or assets it manages (‘identified staff’) and (ii) the classes of instruments that adequately reflect the credit quality of the investment firm and possible alternative arrangements that are appropriate to be used for the purposes of variable remuneration. The objective of these RTS is to define and harmonise (i) the criteria for the identification of staff in the relevant categories and (ii) the use of instruments or alternative arrangements for the purposes of variable remuneration.

To specify the sector-specific remuneration framework that applies to investment firms, the EBA published a consultation paper on draft guidelines on remuneration policies for investment firms. The draft guidelines provide further details on how the remuneration provisions on remuneration policies and variable remuneration under the IFD should be applied by class 2 investment firms. To the extent possible, they are consistent with those on sound remuneration policies under the CRD. The guidelines specify the requirement that the remuneration policy should be gender-neutral. They have been drafted in line with Article 157 of the Treaty on the Functioning of the European Union (TFEU) and the EU Charter of Fundamental Rights to ensure that institutions comply with the principle of equal pay for equal work or equal value of work.

Monitoring remuneration and governance

Improving the governance framework at CRD institutions

In its continued efforts to improve governance, the EBA, in conjunction with ESMA, launched a public consultation to update the joint guidelines on the assessment of the suitability of members of the management body and key function holders. The joint guidelines are applicable to credit institutions and investment firms.

One of the provisions of the guidelines is that institutions should take into consideration the diversity of the management body, including the appropriate representation of women and men. The issue of diversity is not limited to gender; it also concerns the age, professional and educational background, and geographical provenance of the members of the management body.

The guidelines take into account the EBA’s diversity benchmarking report (6), which found that a significant proportion of institutions (41.61% as at 2018) had still not adopted a diversity policy. The report also showed that the representation of women in management bodies in their management function was only 15.13%, while their representation in management bodies in their supervisory function reached 24.02%.

The proposed revised guidelines are also aimed at further harmonising the assessment of suitability within the EU banking and securities sector, in particular with regard to the assessment of suitability in the context of ML/TF risk factors.

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The link between ML/TF risks and prudential risks is clarified in the revised guidelines. The guidelines stress that identifying, managing and mitigating risks arising from ML/TF risk factors is part of sound internal governance arrangements and credit institutions’ risk management framework.

The EBA also launched a public consultation to update its guidelines on internal governance, applicable to credit institutions and significant investment firms (class 1). These revised guidelines are aimed at ensuring sound governance arrangements and fostering a more harmonised approach within the EU. They also specify additional requirements concerning loans and other transactions with members of the management body.

**Monitoring remuneration practices**

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

The EBA has analysed the data provided to it for 2018 and compared them with the 2017 and 2016 data. The main results of this analysis are as follows.

- The number of high earners who were awarded EUR 1 million or more in remuneration for 2018 remained stable overall, with a small increase from 4,861 in 2017 to 4,938 in 2018 (+1.58%); 85.91% of high earners in 2018 were identified staff, versus 86.90% in 2017.

- The regulatory framework for remuneration practices is still not sufficiently harmonised; in particular, the use of deferral and payout in instruments differs significantly among Member States of the European Union and European Economic Area (EEA) and among institutions. This is mainly due to differences in the national implementation of CRD IV, which in many cases allows for waivers of these provisions when certain criteria are met. It is expected that the revised CRD will increase the level of harmonisation after its implementation by 28 December 2020.

- In 2014, a maximum ratio of variable to fixed remuneration of 100% to 200% with shareholders’ approval (the bonus cap) was implemented by Member States. The average effective ratio of variable to fixed remuneration for all identified staff increased from 57.1% in 2016 to 66.62% in 2017 and decreased slightly in 2018 to 62.84%. The number of identified staff decreased significantly, from 53,382 in 2016 to 47,596 (-10.83%) in 2017, with a further small reduction to 47,154 in 2018 (-0.93%). In 2018, overall only 1.73%, and in 2017 only 1.76%, of all staff in institutions were identified staff, which constitutes a material reduction compared with 2.00% in 2016, considering that the specific requirements for variable remuneration under the CRD apply only to identified staff.

In 2020, the EBA updated its guidelines on sound remuneration policies, issued on 21 December 2015 following changes introduced by CRD V and to take into account supervisory experience. The amendments relate, in particular, to the requirement to have remuneration policies that are gender-neutral, the introduction of waivers for the application of deferral and payout in instruments, the possibility of using share-linked instruments in listed companies and the application of the requirement in a group context.
I joined the EBA in 2010 – before it was the EBA! As the new Deputy Secretary General of the Committee of European Banking Supervisors (CEBS), the EBA’s predecessor, I was both awed and inspired when we learned that the small CEBS secretariat was to become the core of the new European Banking Authority. Some work was already in train, such as laying the foundations for the EBA’s first EU-wide stress test. Other foundational work was yet to start, such as setting up our IT and HR infrastructure. To use an aeronautical analogy, we had to build the plane while flying it. Our small group thankfully grew, although many of those original pioneers are still with us, and we maintain the same team spirit and dedication to European values we had then.

The cultural shift was striking as we moved from being a secretariat seeking a Committee’s consensus to being the dedicated staff of an EU agency operating under a Board which votes in the common European interest. The shift facilitated significant steps forward – for example, quickly agreeing on a common definition of core capital that was vital to consistently identifying the strengths and weaknesses of EU banks in the crisis. Similarly, we agreed on maximum harmonisation of supervisory reporting, reducing the burden placed on banks by a plethora of different systems and allowing supervisors to answer questions on matters such as the level of EU banks’ exposures to a particular risk type. Now we have such answers, whereas previously we had 28 ways of guessing, according to some commentators.

At the EBA, we have managed to frequently re-prioritise our efforts as the situation has changed, for example shifting the focus from innovative credit products to sovereign holdings and in turn to rising NPLs, while writing the Single Rulebook and adding new tasks in areas ranging from securitisation to consumer protection. I have always admired my colleagues for their adaptability, technical skillset and high motivation, even when stretched. And the financial landscape keeps changing: the issues we have to deal with today cover areas we would not have dreamt of 10 years ago.

That is why we also had to change the EBA’s structures and working practices to deal with emerging thematic issues. I was proud to be asked to start up a new department in 2018 that works across the EBA and EU on key horizontal themes. Some are emerging themes that we have had to proactively identify, such as ESG issues, ICT risk, artificial intelligence and digital innovations. Others are more long-standing but also developing fast, such as money laundering and terrorist financing and general consumer protection issues, both of course profoundly intertwined with the
digital acceleration we have experienced in recent years. That is why we now have a new AML/CFT team with new powers to support AML/CFT supervisors across the European Union. Our digital finance colleagues have rolled out ICT risk management guidelines and are getting ready for a strengthened DORA framework in the European Union. We are looking at big data, crypto-assets and ‘platformisation’, while supporting the digital safety of EU citizens as they benefit from enhanced payments across the European Union. We have also significantly progressed ESG risk management and disclosure expectations for banks, which includes a green asset ratio to help citizens see the extent to which banks activities support the transition to a net carbon-neutral economy.

And we have been able to realise synergies across these themes. That is why we build ESG and AML considerations into governance and supervisory expectations. It is also why we have built consumer protection and ESG issues into our loan origination guidelines for banks, and AML/CFT issues into all our digital finance work. Meanwhile, we are looking at ways of improving the efficiency of supervisory reporting through technology. As the financial landscape changes, so must the regulators and regulation. The EBA has proved that it is well equipped to support the European Union through these transformations.

Making AML/CFT a real priority for the European Union

In January 2020, changes to the EBA’s founding regulation came into effect. These changes included consolidating the three AML/CFT mandates of the ESAs within the EBA and giving the EBA a legal duty to contribute to preventing the use of the financial system for the purposes of ML/TF. The EBA also received a new legal mandate to ‘lead, coordinate and monitor’ the AML/CFT efforts of all EU financial services providers and competent authorities.

The EBA worked throughout 2020 to implement these new AML/CFT mandates and tasks, while also continuing to implement the Council’s 2018 action plan on AML/CFT. Consequently, 2020 marked a shift towards a more proactive coordination and monitoring role that complements the EBA’s policy development tasks.

Enhancing the cooperation between prudential, AML/CFT and DGS authorities

Leading the development of EU AML/CFT policy, regulation and supervision

In 2020, the EBA led the development of EU AML/CFT policy by setting regulatory expectations of the way competent authorities and financial institutions across all financial services sectors discharge their functions.

Specifically, the EBA consulted on amendments to its guidelines on risk factors, which it had updated to address specific ML/TF risks that had emerged since the guidelines were first issued, and to bring the guidelines into line with the new legal framework. The EBA also published two opinions. In the opinion on the interplay between the DGSD and the Anti-Money Laundering Directive (AMLD), the EBA identified how to mitigate the risk of money laundering and terrorist financing during bank failures and set out views on how to enhance cooperation between AML/CFT and DGS authorities. The opinion also identified what information national authorities should receive from failing credit institutions, and how the authorities should communicate with depositors in such cases. In the opinion on the assessment of ML/TF risks in the SREP, the EBA set out how prudential supervisors...
should consider ML/TF risks in the context of the SREP, working to ensure that these risks were reflected and addressed in other prudential guidelines as necessary and appropriate. Together, these developments mark a change in the way competent authorities approach the supervision of their sector and will lead to more robust and comparable outcomes from both an AML/CFT and a prudential perspective.

In September 2020, the EBA published its response to the Commission’s call for advice on the future EU AML/CFT framework. In its response, the EBA set out how EU law should be amended to strengthen the EU’s AML/CFT defences. It also called on the Commission to clarify provisions in sectoral financial services regulation to ensure that ML/TF risk was addressed consistently across all sectors and throughout the supervisory process.

The EBA also published its response to a public consultation on the Commission’s AML/CFT action plan, through which it provided technical input on future changes to the EU’s institutional framework and on the establishment of an EU-level AML/CFT supervisor in particular.

Finally, throughout 2020, the EBA took the lead on coordinating supervisors’ responses to emerging ML/TF risks. In March 2020, the EBA set clear expectations of competent authorities’ actions in response to financial crime risks associated with COVID-19 and subsequently, throughout 2020, facilitated the exchange of good, COVID-safe supervisory practices. In July 2020, the EBA issued its first ever ‘call for input’ to gather views from market participants on the drivers, scale and the impact of ‘de-risking’ in the European Union. More than 300 stakeholders responded to the EBA’s call for input. The respondents came from across the financial services industry and also comprised a wide range of other stakeholders, including consumers, charities and private sector enterprises. The EBA additionally encouraged competent authorities to adopt proportionate but robust responses to high-profile AML/CFT incidents, including the illicit dividend arbitrage trading schemes (‘cum-ex’), the ‘Luanda Leaks’ and the ‘Fincen Files’. With regard to cum-ex in particular, the EBA published a report on supervisory practices and an associated 10-point action plan, which is currently being implemented.
During the course of the analytical work for our biennial opinion on ML/TF risks, we came across concerns raised by external stakeholders relating to ‘de-risking’. De-risking refers to a decision taken by financial institutions to refuse to onboard or to discontinue servicing existing customers that they associate with higher ML/TF risk. While it is right that firms should not take on risks they cannot manage, the wholesale shedding of entire categories of customers can itself give rise to serious risks, including those relating to financial crime.

Much of the information available to the EBA had been anecdotal. We knew for instance that de-risking was occurring across the EU, but the scale of the problem was not yet clear to us. We knew that it affected a variety of different customers: these included financial institutions such as respondent banks, payment institutions and e-money institutions, along with other customers such as non-profit organisations (NPOs) and asylum-seekers. However, we did not know so much about the impact these de-risking decisions had on customers, or exactly why the decision to de-risk was taken in the first place.

We therefore decided to embark on a fact-finding mission that would help us to better understand the impact of de-risking. Our aim was to hear not only from financial institutions that choose to de-risk certain customers but also from the customers affected by these decisions. In June 2020, the EBA launched a public call for input to gather views from these external stakeholders. We asked about their particular experiences of de-risking, such as how they were notified that they were being de-risked, and what the impact was on their business or their everyday lives.

Our aim was to reach out to the widest possible range of stakeholders and to the public at large. We therefore also organised a virtual panel for NPOs in order to raise awareness of our call for input and to understand their concerns. In the end, more than 300 respondents provided their input in response to the call, which certainly exceeded our expectations.

My colleague Joana Neto, AML Data Specialist, and I then began to assess the input received. It took us several months to go through all the responses, to categorise the respondents, and to cluster and summarise their feedback. As hoped, we received submissions from a great variety of stakeholders: credit and financial institutions, NPOs, consumer protection associations and even diamond dealers.

Some of our preliminary findings will feed into three of the legal instruments on AML/CFT: the opinion on ML/TF risks, the revised risk factor guidelines and the revised risk-based supervision guidelines, all of which will be published in the first quarter of 2021.

While we are now starting to form a better picture of the scale of de-risking across the European Union and the categories of customers that are the most affected by it, we still need to look more closely at the issues raised by the respondents and see what more we can do to address these. We will also explore further the implications de-risking has from an AML/CFT, consumer protection and financial stability point of view. Watch this space!
Coordinating competent authorities’ supervision efforts to ensure the timely and effective identification and management of ML/TF risks

The EBA worked to put in place structures to foster the effective exchange of information and cooperation (i) between AML/CFT supervisors, (ii) between AML/CFT supervisors and prudential supervisors and (iii) between AML/CFT supervisors and other public sector stakeholders, including financial intelligence units and tax authorities.

In January 2020, the EBA replaced the Joint Committee’s sub-committee on AML/CFT with a new standing committee on AML/CFT (AMLSC). The AMLSC brings together senior representatives from 57 competent authorities that are responsible for the AML/CFT supervision of more than 160 000 financial institutions across the three financial services sectors in the European Union, namely banking, investment and insurance. It met seven times in 2020, with more than 50 items for decision or discussion, and an increasing focus on exchanges of views on emerging risks and good supervisory practices.

The EBA also facilitated and monitored the implementation of its guidelines on AML/CFT colleges. Although competent authorities have until January 2022 to set up AML/CFT colleges, they set up 18 AML/CFT colleges in 2020. Of these, EBA staff attended 16 colleges, with a total of 25 meetings, and subsequently provided feedback to lead supervisors on the functioning of each of the colleges. In addition, in three cases, EBA staff shared observations on the adequacy of NCAs’ approaches to the AML/CFT supervision of institutions for which colleges had been organised with the competent lead supervisor. A first report on the functioning of AML/CFT colleges that sets out examples of good and poor practice was published in December 2020.

EBA staff also began liaising with relevant third-country AML/CFT authorities to assess possible channels for communication and information exchange, as well as their future participation in EU AML/CFT colleges. In addition, EBA staff worked to establish strategic relationships with financial intelligence units, seeking to involve them systematically in supporting relevant EBA workstreams.

Monitoring the implementation of the EU’s AML/CFT framework

The EBA continued its reviews of competent authorities’ approaches to the AML/CFT supervision of banks. Reviews were put on hold in March because of the COVID-19 pandemic but resumed in September 2020 in a virtual setting. The EBA worked in tandem with the European Commission to draw on synergies between the Commission’s assessment of Member States’ implementation of the EU’s AML Directive and the EBA’s own reviews. A report summarising key findings and recommendations from the EBA’s 2019 reviews was published in February 2020 and shaped the EBA’s policymaking and priorities for this year.

The EBA used its new powers under Article 9b of its founding regulation to engage with competent authorities about their approaches to the AML/CFT supervision of financial institutions that may be in breach of their AML/CFT obligations. In 2020, the EBA wrote to two competent authorities with regard to four banks. It sought to understand their approach to AML/CFT supervision and to set expectations of their management of ML/TF risks associated with these banks’ operations on the competent authorities’ territory and – in two cases – at the level of the group. Exchanges with both authorities are ongoing.

In December 2020, the EBA published its methodology for carrying out risk assessments under Article 9a(5) of the EBA Regulation. These risk assessments serve to establish the extent to which competent authorities are equipped to effectively mitigate specific ML/TF risks. In line with the AMLSC’s decision, this methodology will be applied for the first time in 2021 to assess competent authorities’ responses to emerging risks, taking the Luanda Leaks as a case study.
Fostering the sound development of financial innovation, consumer protection, payments and sustainability

Enhancing the European framework for consumer protection, financial education and payment services

The EBA’s work on consumer protection is aimed at identifying and addressing detriment that consumers experience, or are at risk of experiencing, when purchasing retail banking products and services.

Throughout 2020, the EBA fulfilled its mandate set out in the Mortgage Credit Directive (MCD) by publishing a report on the review of its 2015 RTS on professional indemnity insurance for mortgage credit intermediaries under the MCD. In the report, the EBA concluded that there was currently no evidence that would suggest any amendments to the RTS are needed.

In addition, in fulfilment of its mandate to co-ordinate financial literacy and education initiatives by NCAs, the EBA published its second report on financial education, based on the EBA financial education repository consisting of more than 120 financial education initiatives taken by national authorities. The report identified lessons learned, as well as key trends and developments that could shape future initiatives [see figure 6]. The main trends identified in the financial education initiatives include the interplay between financial education, financial conduct regulation and supervision, the increasing role of financial innovation and the growing focus on specific target groups, such as children and youth and elderly people. The report also presents the potential developments that could influence future financial education and financial literacy initiatives, such as behavioural economics, sustainable finance, and data analytics and big data.

In addition, the EBA produced a factsheet entitled ‘Coordinating financial education and literacy’. The factsheet explains the concept of financial education and literacy, outlines the role of the EBA and describes how EU citizens can benefit from the EBA’s actions. The EBA also held a virtual conference with 450 registered attendees dedicated to digital financial education and literacy in the context of COVID-19 and featuring high-level speakers.

Figure 8: Current approaches in financial education initiatives of national authorities
As part of its supervisory convergence work on consumer protection, the EBA issued a second report on the way the financial industry has implemented the 2016 EBA guidelines on product oversight and governance arrangements for manufacturers and distributors of retail banking and payment products. The report was carried out with a larger sample of financial institutions and in a larger number of Member States than the first edition, enabling it to arrive at more robust conclusions. The report also included good practices among financial institutions.

In July 2020, the EBA issued its first ever ‘call for input’ to gather views from market participants on the drivers, scale and the impact of ‘de-risking’ in the European Union. More than 300 stakeholders responded to the EBA’s call for input, including consumers.

**Improving the security of payment services and enhancing competition in the payments market**

The aims of the EBA’s work on payments include enhancing the security of payment services, facilitating innovation, protecting consumers and fostering competition in the payments market. The EBA continued its efforts towards achieving these objectives through its regulatory and supervisory convergence work in the area of retail payment services, contributing to the consistent application and implementation of the revised Payment Services Directive (PSD 2) and the EBA legal instruments supporting the Directive. More specifically, throughout 2020, the EBA:

- made further progress on the implementation and application of the requirements on consumer payment account access by third party providers, including the publication of an opinion on the removal of obstacles to the provision of account information services and payment initiation services, based in part on input received from the EBA’s industry working group on application programming interfaces;
- carried out work on the implementation and application of the requirements for SCA and other security measures;
- monitored the migration to SCA compliance and readiness for e-commerce card-based payment transactions;
- contributed to a consistent implementation and application of the guidelines on fraud reporting under PSD 2;
- published a consultation paper on the review of the guidelines on major incident reporting under PSD 2, based on the assessment of all incident reports received in 2018 and 2019;
- assessed the interplay between PSD 2 and the General Data Protection Regulation.
Throughout 2020, my colleagues and I in the EBA Payments Team continued our efforts to make the implementation of PSD 2 a success by achieving the various objectives of the Directive and the related EBA legal instruments. These objectives include fostering competition, enhancing the security of payment transactions and ensuring the safety of consumers’ funds and data.

As a result of the COVID-19 pandemic, which led to a swift move to increased provision of goods and services online, online payment transactions became even more important as a way of supporting the EU economy, and my work on the security of electronic payment transactions became even more crucial. This work included providing a number of clarifications on the application of SCA and other related requirements. It also consisted of monitoring the migration to SCA compliance by 31 December 2020 for e-commerce card-based payment transactions. This is aimed at ensuring that EU consumers can continue safely to purchase goods and services online.

In doing so we assessed various indicators of industry readiness as set out in the EBA opinion on the deadline for migration to SCA for e-commerce card-based payment transactions. We monitored the extent to which issuing and acquiring PSPs – which comprise several thousand banks, payment institutions and e-money institutions – are ready to apply these requirements and thus meet the related objectives of increasing consumer protection, enhancing security and developing trust in e-commerce.

Together with our member authorities, we also contributed to the PSD 2 objective of enhancing competition by developing the Opinion on obstacles to account access under PSD 2. The opinion aimed at ensuring that obstacles to the provision of account information services and payment initiation services offered by third-party providers are removed. This complemented our general efforts towards the development of open banking, aimed at ensuring that payment service users can take advantage of the new and innovative services offered by these market challengers. We also started working on coordinating the supervisory actions that could be taken by NCAs to make sure these obstacles are removed from the interfaces of account-servicing PSPs.

Finally, I had the pleasure of starting our first review of an EBA legal instrument under PSD 2: the revision of the EBA guidelines on major incident reporting. The revision is based on an assessment of the incident reports received in 2018 and 2019. Its aim is to improve the meaningfulness of the reports received and reduce the reporting burden on PSPs by optimising and simplifying the reporting templates and processes.
Contributing to the European Commission’s digital finance agenda

In September 2020, the European Commission published its flagship digital finance strategy (DFS) accompanied by legislative proposals for markets in crypto-assets (MiCA) and digital operational resilience (DORA). The DFS builds on the work carried out in accordance with the Commission’s March 2018 FinTech action plan and sets out significant new roles for the EBA in relation to the following.

- **Remote on-boarding and digital identities:** the DFS mandates the EBA to prepare guidelines to promote greater convergence on the elements relating to the identification and verification needed for on-boarding purposes, and on the manner and extent to which financial service providers are allowed to rely on customer due diligence processes carried out by third parties, including other financial service providers.

- **The suitability of the EU’s regulatory and supervisory framework:** the DFS acknowledges the EBA’s important and continuous role in monitoring the suitability of the EU regulatory and supervisory framework in light of the emergence of new activities and structural changes in the financial sector with a view to ensuring that the framework continues to be fit for purpose in the digital age.

- **Supervisory data strategy:** the DFS mandates the European Commission to develop a strategy on supervisory data to which the EBA will contribute, including with a view to ensuring that (i) supervisory reporting requirements are unambiguous, aligned, harmonised and suitable for automated reporting; (ii) full use is made of available international standards and identifiers, including the Legal Entity Identifier; and (iii) supervisory data is reported in machine-readable electronic formats and is easy to combine and process.

- **Artificial intelligence (AI):** the DFS envisages that the ESAs and the ECB will be invited to explore the possibility to develop regulatory and supervisory guidance on the use of AI applications in finance, following the recent publication [1] of the EU-wide regulatory proposal on AI.

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Facilitating the scaling-up of technology-enabled financial services in the European Union (MiCA and DORA)

In September 2020, the European Commission published its proposal for a regulation on markets in crypto-assets (MiCA). The aim of this proposal is to establish an EU framework for the regulation of specified activities involving crypto-assets not already covered by EU law as MiFID financial instruments. New activities that would be brought within the ambit of EU regulation include the issuance of crypto-assets (e.g. in the form of asset-referenced or e-money tokens), custody and administration of crypto-assets, and the operation of crypto-asset trading platforms and exchanges (for fiat currency or other crypto-assets). It is proposed that firms will typically be required to obtain (national) competent authority authorisation in order to carry out crypto-asset services in the European Union with issuers of ‘significant’ asset-backed or e-money tokens subject to supervision at the EU level.

Pending the outcome of the co-legislative process, the EBA is continuing to monitor market and regulatory developments. Its aim is to promote consistency in regulatory and supervisory approaches to, and understanding of, crypto-assets and applications of blockchain technology in the EU financial sector. The EBA is also contributing further to international work streams, including the BCBS work on the prudential treatment of crypto-assets and the Financial Action Task Force (FATF) work on virtual assets and virtual asset service providers.

The purpose of the Commission’s DORA proposal is to put in place a comprehensive framework on digital operational resilience for EU financial entities and to consolidate and upgrade the ICT risk requirements that have so far been addressed separately in different pieces of financial services legislation. It essentially aims to highlight the importance of ICT risk by distinguishing it from financial risks, noting the need for a comprehensive assessment (not focusing only on traditional quantitative approaches). The DORA proposal sets out measures applicable to financial entities in relation to ICT risk management, major ICT-related incident reporting, digital operational resilience testing, information and intelligence-sharing in relation to cyber threats and vulnerabilities, and ICT third-party risk management. In addition, the proposal...
Figure 9: Digital finance work programme 2020-2021

**KEY TOPICS FOR 2021**

- Digital Platforms
- RegTech
- Digital Operational Resilience
- Crypto assets
- AI
- Digital Identities
- SupTech
- Data Driven Innovation

**GENERAL AREAS OF FOCUS ON DIGITAL FINANCE**

- Monitoring
  - Regulatory perimeter, licensing
- Addressing regulatory obstacles
- Building supervisory knowledge
- Raising consumer awareness

**ONGOING ACTIVITY**

Monitoring Innovation
includes the policy option of establishing an oversight framework applicable to critical ICT third-party service providers (CTPPs) offering services to financial entities.

Under the DORA proposal, the ESAs would be mandated with an extensive set of tasks and powers. These would include policy work on ICT risk management, ICT-related incident reporting, advanced cyber testing and ICT third-party risk management. The ESAs would also perform new, ongoing tasks under the mandate (such as the assessment of major ICT-related incidents for reporting purposes, and the development of crisis management and contingency exercises across the financial sector). Most importantly, the EBA (along with the other ESAs) would be responsible for overseeing CTPPs on an ongoing basis. This would include carrying out general investigations and on-site inspections, as well as issuing recommendations addressed to CTPPs.

Supporting supervisors in building knowledge on regulatory technology (RegTech)

As part of its work programme on financial innovation monitoring, the EBA has identified RegTech as an area to be explored and better understood, taking into account the relevant risks and opportunities. RegTech is the technology used by regulated institutions to meet regulatory, compliance and reporting requirements [with or without the assistance of service providers]. In summer 2020, the EBA conducted a RegTech survey among financial institutions and RegTech providers to gather insights into the use of RegTech solutions, the associated challenges, and potential ways to support the uptake of RegTech across the European Union. In December 2020, the EBA then organised an invitation-only EBA virtual workshop on RegTech. The aims were to further explore RegTech related challenges, discuss RegTech governance aspects and elaborate on the specific AML/CFT and ICT security use cases. The event was attended by almost 100 participants from competent authorities and contributed to building knowledge on innovative technologies used by financial institutions and offered by RegTech providers. All findings of the EBA analysis on RegTech will be available in the forthcoming EBA report on RegTech to be published by mid-2021.

Strengthening supervisory understanding and interactions with stakeholders on the use of AI applications in finance

Following the publication of the EBA report on big data and advanced analytics in January 2020, the EBA continued monitoring developments in the area of AI and engaging closely with stakeholders. Its work in this area will provide valuable input into the upcoming policy discussions. The EBA has observed a growing trend in the adoption of AI applications in the banking sector. This trend has accelerated as a result of the pandemic, with financial institutions now relying more heavily on digital solutions to perform their daily operations and to continue delivering their services and products to customers.

According to the EBA’s latest risk assessment report (¹) (December 2020), 64% of EU banks have already launched some AI applications. Notably, within two years, 12% of the EU banks have moved from pilot testing and development to the implementation of AI applications. Increasing use of cloud computing, which can facilitate AI adoption, was also observed among EU banks. This supports the trend of financial institutions seeking to benefit from cost savings, more productive business models and new ways to compete by using AI technology.

In its ongoing interaction with stakeholders, the EBA noted a number of challenges to adoption. The principal challenge relates to data management issues, which can prevent financial institutions from scaling up data and analytics. Other challenges relate to (i) time-to-solution, including integration with legacy IT systems; (ii) the difficulty of creating trust around the ability of AI to deliver trustworthy insights, which requires an appropriate culture within the institution; and (iii) the lack of relevant and sufficient resources and expertise.

The EBA hosted a virtual workshop on AI in October 2020, which attracted more than 800 participants and allowed a fruitful exchange of views among different stakeholders. A key message from stakeholders on AI adoption was that not every problem requires the use of a sophisticated AI model. Essentially, while the use

of complex/opaque models may lead to higher accuracy, this may not be necessary if the required results and an acceptable level of accuracy can be obtained using simpler models.

Many stakeholders considered that the provision of supervisory guidance on the adoption of AI applications would be beneficial. In their view, this guidance should be principles-based and consistent with the cross-sectoral initiatives. It should also include accountability, explainability and transparency aspects. They additionally believed that such guidance should be geared towards a risk-based approach: a ‘one size fits all’ approach would not be appropriate given that AI applies a wide range of different use cases.

### Laying the foundations for the management, supervision and disclosure of ESG risks

Building on technical preparatory work carried out in 2019, the EBA began in 2020 to integrate ESG factors and risks into the banking regulatory framework. First, the EBA introduced sustainability considerations into the guidelines on loan origination and monitoring published in May 2020. In these guidelines, the EBA sets out a requirement for institutions to consider ESG factors, environmentally sustainable lending and associated risks in their credit policies and procedures.

The EBA then issued a discussion paper providing a comprehensive proposal on how ESG factors and risks could be included in the regulatory and supervisory framework for credit institutions and investment firms. The discussion paper was a preparatory step towards fulfilling mandates under the CRD 5 and the IFD to (i) identify strategies and processes to manage ESG risks and (ii) assess the potential inclusion of these risks in the SREP performed by competent authorities. It focused mainly on the risks to which institutions are exposed via the impact of ESG factors on their counterparties. It also provided details on the transmission channels of risks stemming from environmental factors, especially climate change, and described ongoing initiatives and progress achieved on this topic over recent years.

The discussion paper identified, for the first time, common definitions of ESG risks and provided an overview of current evaluation methods. It also outlined recommendations for proportionately incorporating ESG risks into business strategies and processes, governance, risk management and supervision. As the existing supervisory review processes may not be sufficient to allow supervisors to understand the longer-term financial impact of ESG risks, the discussion paper proposed introducing, as a new area of supervisory analysis, an evaluation of the long-term resilience of the business model against the time horizon of the relevant public policies or broader transition trends.
In addition, in 2020 the EBA initiated a pilot sensitivity analysis on climate risk. The analysis was carried out on a sample of volunteer banks (29 EU banks from 10 countries). Since climate risk stress-testing frameworks are still evolving, this was designed as a learning exercise for both the EBA and participating banks, focusing only on transition risk. Its main objectives were (i) to explore data and methodological challenges relating to climate risk assessment, (ii) assess banks’ readiness to apply the EU green taxonomy for classifying their own exposures and (iii) to lay the groundwork for embedding climate risk in the stress-testing framework in the coming years.

**Standardised disclosures to enhance market transparency**

In 2020, the EBA conducted preparatory work on ESG disclosures. The aim was to understand how institutions are contributing to ESG objectives, and how ESG risks may exacerbate other risks on their balance sheets. The findings are intended to help stakeholders make informed decisions.

First, in the context of the Joint Committee, the EBA and the other ESAs developed a consultation paper setting out RTS under the EU Regulation on sustainability-related disclosures in

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**Figure 11: ESG disclosures in the EU: financial institutions**

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<td>ESG risks and risk mitigating actions</td>
<td>Investment products and financial advice</td>
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<td>Large listed banks (CRR) and investment firms (IFR)</td>
<td>Financial firms selling investment products and financial advisers</td>
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**ESG DISCLOSURE OBLIGATION IN THE EU RELEVANT FOR INSTITUTIONS**

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**EBA MANDATES**

- **TAXONY REGULATION** Advice to Commission on KPIs
- **CRR** ITS Pillar 3 disclosures on ESG risks
- **SFDR** ESAs’ Joint Committee RTS

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NFRD: Non-Financial Reporting Directive  
CRR: Capital Requirements Regulation  
IFR: Investment Firms Regulation  
SFDR: Sustainable Finance Disclosure Regulation
the financial services sector (Sustainable Finance Disclosure Regulation, SFDR), and co-ordinated responses to the consultation on the review of the Non-Financial Reporting Directive (NFRD) (9). Further information about the EBA’s work on ESG disclosures can be found in the section ‘Moving towards an integrated EU data hub and a streamlined reporting framework’ below.

In addition, the EBA began work on preparing Pillar 3 prudential disclosures on ESG risks for large institutions with securities traded on a regulated market of any Member State, as mandated by the CRR. The EBA started an analysis to identify relevant disclosures for these large institutions, which will have to disclose prudential information on ESG risks, from June 2022. It also engaged with stakeholders, in particular by means of a survey and meetings with institutions, with a view to develop standards for making information sufficiently comprehensive and comparable so that its users can assess the ESG risk profile of institutions.


Further information about the EBA’s work on ESG disclosures can be found in the section ‘Shaping EU sustainability policy and international supervisory initiatives’ below.

In 2020, the EBA responded to the Commission’s public consultation on a renewed sustainable finance strategy for the European Union. In its response, the EBA agreed with a wide range of possible EU-level actions to support the financing of the transition to a more sustainable European economy while appropriately managing the ESG risks in the financial sector and ensuring high standards of consumer protection. The EBA argued for internationally consistent disclosures, noted the need for a robust and risk-based regulatory framework and supported the establishment of a single EU data platform with ESG-related information to support evidence-based decision-making by the public and private sectors.

The EBA also contributed to international efforts on policy development and supervisory practice-sharing, in particular the activities of the BCBS Task Force on Climate Risks and the Network for Greening the Financial System.

The ESAs’ cross-sectoral work under the Joint Committee

Assessing risks in the wake of the COVID-19 pandemic

The Joint Committee issued a joint risk assessment on risks and vulnerabilities in the EU financial system after the outbreak of the COVID-19 pandemic. The 2020 autumn joint report (10) focused mainly on the impact of COVID-19 and gave the first cross-sectoral perspective on risks as potential sources of instability. The report highlighted that valuation, liquidity, credit and solvency risks have increased across the board. The impact of the pandemic on EU banks’ asset quality remained a key concern as significant uncertainty about the timing and size of a recovery persists. The report encouraged supervisors and financial institutions to make use of the flexibility in the existing regulatory framework, including the use of capital and liquidity buffers to absorb losses. It described how the pandemic has led to further amplified profitability concerns across financial sectors, and to increasing asset quality concerns. The issue of decoupling of financial markets valuations and real economy perspectives was also covered in depth, as was the further build-up of valuation risks in securities markets. The report also highlighted that the use of and reliance on ICT have increased further with the spread of COVID-19, and that sound ICT and security risk management must be placed high on the agenda, not least when outsourcing ICT activities.

Safeguarding consumer and strengthening sustainability across financial services

Consumer protection has been and continues to be a key element in the work of the Joint Committee.

During 2020, the ESAs worked to conclude their review of the PRIIPs key information document (KID) following a public consultation on amendments to the PRIIPs Delegated Regulation in the last quarter of 2019. In July 2020, a final report including draft RTS was approved by the EBA and ESMA Boards of Supervisors, but it did not receive the support of a qualified majority on the Board of Supervisors of the European Insurance and Occupational Pensions Authority (EIOPA). In December 2020, the European Commission invited the ESAs to jointly submit an RTS within a six-week period, and in response the EIOPA Board further analysed the draft RTS. In January 2021, based on further details provided by the European Commission on their approach to the broader review of the PRIIPs Regulation, the EIOPA Board also approved the RTS. From the ESAs’ perspective, the proposals should result in substantive improvements to the KID, before the upcoming review of the PRIIPs Regulation.

During 2020, in total eight administrative sanctions or measures under the PRIIPs Regulation were reported to the ESAs by the competent authorities in Croatia, Germany and Hungary. These measures were administrative fines and orders to the PRIIPs manufacturer to remedy specified breaches of the PRIIPs Regulation and the PRIIPs Delegated Regulation. Regarding the administrative fines, the Central Bank of Hungary reported two administrative fines imposed during 2020 totalling 4,000,000 HUF (approx. €10,928) and BaFin reported one administrative fine of €49,000.

Progress on sustainability-related disclosures

The Regulation on sustainability-related disclosures ([1]) (SFDR), which has been amended by Article 25 of the Taxonomy Regulation, aims to strengthen protection for end-investors by standardising and enhancing ESG-related disclosures. It mandates the ESAs to develop a number of technical standards through the Joint Committee. Seven RTS have been delivered in February 2021, two draft RTS will be delivered by June 2021 and two draft RTS by June 2022.

A consultation paper was published by the ESAs in April 2020, covering seven draft RTS related to entity-level principal adverse impact disclosures and product-level disclosures on sustainability characteristics or objectives, as well as on the ‘do no significant harm’ principle, in line with the amendment to the SFDR by the Taxonomy Regulation. Due to the COVID-19 pandemic, the ESAs informed the European Commission via a letter that the delivery of the final report would be

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[4] In the 2019 JC Annual Report, it was stated that no administrative sanctions or measures had been reported to the ESAs in 2018 or 2019. However, after the publication of that Report, the Central Bank of Hungary reported to the ESAs two administrative sanctions or measures imposed during 2019 under the PRIIPs Regulation. These measures were orders to the PRIIPs manufacturer to remedy specified breaches of the PRIIPs Regulation (Articles 6(1), 6(4), 8(3) and 14(3)) and the PRIIPs Delegated Regulation (Articles 2(5), 4, 5(4), 6, 7, 8(1) and 9).

delayed by around four weeks, to end-January 2021. An online public hearing, with more than 1,200 participants, took place in July 2020. In parallel with the draft RTS, ESA staff developed templates to be used by the financial market participants for the pre-contractual and periodic disclosures.

The European Commission proposed that the application date of the RTS should be delayed, while the original date of application of the Level 1 legislation should remain 10 March 2021. This was set out in a letter sent by the Commission to the ESAs’ Chairs on 20 October 2020 and has also been communicated to financial market participants.

Furthermore, through the Joint Committee, the ESAs coordinated their respective responses to the consultation on the review of the Non-Financial Reporting Directive (NFRD). In June 2020, in a letter to the European Commission, the ESAs highlighted the importance of ensuring consistency of the NFRD with other pieces of legislation in the sustainable finance area, notably the Disclosure Regulation and the Taxonomy Regulation, and the ESAs underlined their readiness to support this work further to ensure consistency and contribute to the development of non-financial reporting standards.

**Securitisation Committee moving ahead on its mandates**

With a view to helping in the recovery of the securitisation market, the Securitisation Committee, established by the three ESAs under the Joint Committee in 2019, continued the previous year’s work on identifying obstacles to the implementation of the Securitisation Framework.

In particular, the Securitisation Committee considered the difficulties in ascertaining the jurisdictional scope of application of certain provisions in the Securitisation Regulation in relation to securitisations where one or more of the parties is located in a third country. The Joint Committee continued to develop an opinion on this subject.

In July the Securitisation Committee launched a consultation to gather competent authorities’ and market participants’ feedback for the purposes of the report referred to in Article 44 of the Securitisation Regulation. The report must provide the Commission and the co-legislators with, inter alia, the ESAs’ assessment on:

(i) the implementation of the STS requirements and the functioning of the Securitisation Regulation as regards the due diligence, transparency and risk retention requirements set out therein;

(ii) competent authorities’ actions to tackle new material risks and emerging vulnerabilities in the securitisation market;

(iii) market participants’ actions to standardise transaction documentation.

The opinion and the report are expected to be delivered within the first semester of 2021.

In the context of the COVID-19 pandemic, the Securitisation Committee considered the potential impact of debt moratoria and public guarantee schemes on securitised debt. The Securitisation Committee also discussed the interpretation of ‘default’ in securitisation transactions subject to moratorium schemes.

Lastly, the Securitisation Committee noted the loss of the ‘simple, transparent and standardised’ (STS) label for UK securitisation transactions after the end of the transition period on 31 December 2020 and agreed to the press release issued by the ESAs to make market participants aware of this change.

**Innovation and digital finance as an integral part of the Joint Committee’s work**

In 2020 the Joint Committee stepped up its innovation and digital finance-related work, including in the context of the European Commission’s digital finance strategy, with extensive technical discussions on topics such as crypto-assets, digital operational resilience and cross-border sandbox testing. To further support the Joint Committee’s work in this area and coordinate the response to the specific elements of the European Commission’s digital finance package, the ESAs established an ESA staff workstream under the auspices of the Joint Committee. The main task for the ESAs’ new Coordination Group on Technological Innovation and Cybersecurity is to facilitate cooperation and coordination on cross-sectoral issues.
European Forum for Innovation Facilitators (EFIF)

The European Forum for Innovation Facilitators (EFIF) continued to bring value in bridging national innovation facilitators (regulatory sandboxes and innovation hubs) on innovation-related issues. The EBA handed its chairmanship of this forum over to EIOPA in May 2020.

Under EIOPA’s chairmanship, discussions continued on how to strengthen the EFIF and deliver a procedural framework to facilitate cross-border testing in accordance with the mandate set out in the digital finance strategy. EFIF members continued to exchange views on the design and development of new innovation facilitators, innovation trends, and the application of specific technologies in the financial sector. These discussions covered themes such as multi-purpose digital platforms for the provision of financial services, RegTech, AI, big data and machine learning. They also addressed the role of financial technology (FinTech) in responding to the COVID-19 crisis.

The forum additionally served to strengthen engagement with stakeholders such as the European Bank for Reconstruction and Development (EBRD), the Directorate-General for Structural Reform Support (DG REFORM) at the European Commission and third-country supervisory authorities.

Continuing the work on financial conglomerates

In 2020, the Sub-Committee on Financial Conglomerates finalised the final report on draft implementing technical standards (ITS) under the Financial Conglomerates Directive (FICODE) on reporting templates for intragroup transactions (IGTs) and risk concentration (RC) and the relevant annex. The harmonisation of the IGT and RC templates for conglomerates is aimed at aligning the reporting under FICODE, with a single set of templates, common definitions and instructions for filling in the templates as set out in the Annex to the ITS.

In addition, the Joint Committee published its 2020 annual list of identified financial conglomerates. This shows 65 financial conglomerates located with the head of group in the EU/EEA and one financial conglomerate with the head of group in Switzerland.

Other relevant cross-sectoral Joint Committee work

The Joint Committee finalised its joint final report on the second amendment to the draft ITS on the allocation of credit assessments of external credit assessment institutions (ECAIs) to an objective scale of credit quality steps in accordance with Solvency II. This amendment addressed the Joint Committee monitoring mandate to ensure the adequacy of existing mappings. The approval process for the Solvency II Final Joint Report was decoupled from the CRR Final Joint Report (which concluded in May 2019) and published by the European Commission in June 2020.

In addition, the ESAs started work towards a third amendment to the draft ITS, to continue delivering on the Joint Committee mandate by assigning mappings to additional newly established ECAIs and new rating scales, as well as monitoring to ensure that existing mappings remain representative of the ECAIs’ risk profiles.

The ESAs also amended the joint final report on the draft amending RTS under the European Market Infrastructure Regulation (EMIR) on the risk mitigation techniques for over-the-counter (OTC) derivative contracts not cleared (bilateral marging). The amendment covers a variety of aspects. The amendment background provides clarification of the requirements where the bilateral initial margin amount is below the EUR 50 million initial threshold. The amendment provides an extension of the phase-in of the implementation of the initial margin requirements in two ways: by introducing an additional implementation phase (an additional EUR 50 billion threshold has been added) and by granting a one-year deferral in response to the COVID-19 outbreak. The amending RTS also extend the specific treatment provided for physically settled FX forwards to physically settled swaps. Finally, the targeted update extends the intragroup exemption for 18 months (to align the framework with the clearing provisions) and the equity exemption for three years. In addition, the amended RTS also reintroduces a regulatory solution to facilitate novations from UK counterparties to EU counterparties in the context of the end of the transition period,
which had first been designed two years ago but which had then become void following the withdrawal agreement.

The Joint Committee additionally discussed the mandate in Article 31a of the ESA Review to set up a cross-sectoral system for the exchange of information on the fit and proper assessments. The work on the policies, procedures and templates for the exchange of information, and on a possible IT system, will continue. The Joint Committee also agreed to start an IT pilot project in the area of banking and insurance.

**The ESAs’ Board of Appeal**

The Board of Appeal is a joint independent body of the ESAs, introduced to effectively protect the rights of parties affected by decisions adopted by the Authorities. The ESAs provide secretarial support to the Board of Appeal. In 2020, there were three appeal cases finalised, two brought against ESMA and another brought against EIOPA.

The Board of Appeal unanimously decided to dismiss the appeal brought by the credit rating agency Scope Ratings GmbH against ESMA and to confirm the decision imposing fines and the measure of public notice for breaches of the Credit Rating Agencies (CRA) Regulation. In particular, the Board of Appeal found that ESMA did not err in law in its interpretation of the applicable legal provisions of the CRA Regulation.

The Board of Appeal issued its Decisions dismissing two cases lodged by the same appellant against ESMA and EIOPA on alleged non-application of Union law. The Board of Appeal dismissed the appeal against ESMA as inadmissible, as (i) the facts described by the Appellant did not relate in any way to aspects under the supervision of the relevant national authorities or of ESMA; and (ii) the conclusion of ESMA provided to the Appellant should be considered as a simple provision of information and not as a decision pursuant to Article 17 of the ESMA Regulation which could be challenged before the Board of Appeal. The Board of Appeal dismissed the case against EIOPA as manifestly inadmissible, as the appellant merely reiterated the very same complaints which the Board of Appeal determined to be inadmissible in that context.

**Monitoring and mitigating risks related to Brexit**

In 2020, the EBA’s work in helping the financial industry prepare for the end of the transition period agreed between the European Union and the United Kingdom reached a crucial stage. EU legislation ceases to apply in the UK from 1 January 2021. Together with the competent authorities, the EBA monitored the industry’s preparations, as well as those of customers and users of financial services, focusing in particular on raising consumers’ awareness of the imminent changes.

As part of the preparatory work, the EBA was proactive in its external communications, reaching out to financial institutions through a series of statements. The key message was that it would no longer be possible for firms to provide their services in the EU without adequate authorisation, proper establishment in the EU and adequate communication to customers. The EBA also contributed to raising awareness of the EU consumers using financial services offered by the UK institutions by issuing a dedicated consumer-oriented statement translated into all EU languages.

To prepare for the future relationship with the UK as a third country, the EBA contributed to the work of the European Commission on the assessment of UK regulatory equivalence, focusing on CRR equivalence. The EBA also formalised its own preparations for the future relationship with the UK by concluding cooperation arrangements (memoranda of understanding) with the Bank of England, Prudential Regulation Authority and Financial Conduct Authority.
In 2021, the EBA celebrates its 10-year anniversary. Since 2011, we have lived through many special years, with landmarks such as the euro area sovereign crisis, preparations for the banking union, the outcome of the UK referendum and the relocation from London to Paris. All of these events have affected our activities, caused us to rethink some of our policies, and required us to make quick adjustments to our priorities.

But 2020 was more than just a special year, with an unforeseen global pandemic spreading fast across countries, threatening lives, and suddenly changing our lifestyles and working practices. We had not planned for such an event, but we demonstrated that we were strong and flexible enough to deal with it.

Literally overnight, we shifted to remote working arrangements and continued delivering on our mandates. The EBA was quick to engage with Members, coordinating a joint EU response and deploying relief measures for banks at a time when uncertainty was high and making decisions was not easy.

We decided to postpone the ongoing EU-wide stress test but also felt that it was crucial to inform all stakeholders on the evolution of the banking sector with additional EU-wide transparency exercises. In addition, we provided advice to policymakers on key decisions for mitigating the impact of the crisis on the EU banking sector and, in turn, households and firms.

We also kept up with our regular mandates. The EUCLID data project progressed steadily, notwithstanding the operational challenges that teleworking posed for us and competent authorities. We delivered a seminal benchmarking exercise regarding national insolvency regimes in Europe and updated the quantitative impact assessment of the Basel III framework. We also regularly informed the Board of Supervisors and the general public both about risks and market developments and about the effects of public support measures on banks.

Our ability to operate effectively during the pandemic is the result of 10 years of hard work. We have developed our analytical capacity, built solid team spirit and encouraged cooperation – not least through lively discussions and the reconciliation of disparate views. Our statistical capabilities regarding economic and risk data have proved to be an essential asset for the EBA and instrumental to informed decision-making.

I would like to pay tribute to my colleagues, not only for what they did in 2020 but also for how they did it: tirelessly, even when they were tired;
quietly, despite the requests piling up; and effectively, notwithstanding the pressure and the logistical challenges.

Over the past 10 years, we have demonstrated our commitment to making wise and efficient use of data to assess risks, to improving regulation and to producing policy-relevant research. In 2021, we will crystallise our vision for the future in a far-reaching data strategy, confirming our determination to serve as an EU centre of analytical excellence and bank data hub.

Moving towards an integrated EU data hub and a streamlined reporting framework

What does it mean to work towards integration?

In the current reporting landscape, institutions report various types of data to different authorities. The process of obtaining the different data from the institutions’ legacy systems and preparing the final reports to be submitted to the authorities has sometimes led to inefficiencies and increased reporting costs.

The EBA has been mandated under Article 430c of the CRR to prepare a feasibility study on an integrated reporting system. The main aim of this study is to analyse the key steps of the reporting process and propose a series of options for further enhancing efficiency. The costs and benefits of the resulting integrated reporting system are also to be presented.

Under the mandate, the study is required to include an analysis of three main aspects. The first of these is the feasibility of creating a consistent, unique and common data dictionary. This should provide definitions of different types of data (prudential, statistical, resolution). The second aspect is the possible creation of a central data collection point. This would serve as a point of contact between authorities where they receive, process and exchange information. The third aspect is the establishment of a joint committee and appropriate governance arrangements for the development and implementation of the integrated reporting system.

How will an integrated reporting system benefit reporting entities and authorities?

The main aim of an integrated reporting system is to streamline the reporting process and make it more efficient. Such a system could benefit reporting entities and authorities by providing a coherent set of definitions in the proposed data dictionary following the ‘define once’ principle, making it easier to understand and compare data. The sys-

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WORKING TOWARDS DATA INTEGRATION AND REPORTING EFFICIENCY
tem could also facilitate data-sharing among authorities through a central data collection point, following the ‘report once’ principle.

Finally, an integrated system will allow authorities to better coordinate their efforts, enhancing the governance of the reporting process.

**How is the EBA preparing the feasibility study?**

I am working on the feasibility study with a group of EBA experts from various units across the EBA. Coming from different backgrounds has allowed us to learn from and help each other.

The feasibility study is being prepared in two phases. The first of these was the fact-finding phase, which took place during 2020. In this phase, our aim was to scope the report and investigate existing initiatives on the integration of reporting. Together, we have delivered a discussion paper which contains the preliminary integration analysis and which provides a consultation on a number of questions to assist the EBA team in finalising the study.

The second phase will consist of further interaction with the relevant stakeholders and finalisation of the feasibility study, which will be delivered by the second half of 2021.

The feasibility study poses a challenging and interesting task for the EBA, as we discuss the future of reporting in a changing landscape where many options are being analysed by the different stakeholders involved. At the same time, it has been a great opportunity for the team participating in this project to gain a detailed overview and rich knowledge of the reporting process in Europe.

**Figure 12: Integrated reporting system: high-level features**

![Diagram of integrated reporting system: high-level features]

- **REPORTING INSTITUTION’S DATA**
  - Transforming and mapping data from the internal system to a single set of common concepts provided in the common data dictionary to produce the reporting figures.

- **CENTRAL DATA COLLECTION POINT**
  - **COMMON DATA DICTIONARY**
    - EU common data dictionary
    - National extensions to the EU data dictionary
    - Transformation rules

- **REGULATORY DATA REQUESTED BY AUTHORITIES**
  - Orange: Prudential
  - Blue: Resolution
  - Green: Statistical

**REPORTING PROCESS**

1. Data definition
2. Data collection
3. Data transformation
4. Data exploration
Standardising disclosures to enhance market transparency and proportionality

**First steps to improving proportionality**

The ACP welcomes the efforts made by the EBA to deliver on its advice provided in September 2020 regarding the EBA 2021 Work Programme. The Committee recognises the challenges of applying some of its suggestions within the boundaries of the level 1 text and the mandates for the development of regulatory products. With regards to the investment firms regulation roadmap, the ACP was pleased to see that proportionality considerations were duly taken into account when preparing the different mandates. Similarly, the Revised EBA guidelines on common procedures and methodology for Supervisory review and Evaluation Process (SREP) have considered proportionality ex-ante. However, the ACP would like to reserve its right to evaluate the EBA’s performance during the execution phase of the SREP guidelines. Concerning the guidelines on internal governance, the ACP understands that national law has set clear boundaries for the EBA when trying to incorporate its suggestions.

One of the EBA’s outputs, which will be a turning point in the application of proportionality, is the cost of compliance study. The ACP is satisfied that its suggestions have been closely discussed with relevant experts to ensure that they are aligned with the proposed changes to the EBA supervisory reporting framework and that proportionality is further anchored in the underlying regulatory framework.

Finally, in relation to the mandates in the area of sustainable finance, the ACP highlighted as a major challenge the reliance on client information in order to fulfil the requirements stemming from the now revised Corporate Sustainability Reporting Directive (CSRD). Considering the difficulties that institutions may face the ACP would like to encourage further coordination in the various fora available to the EBA and actively promote a rapid implementation of a free of charge European database that can be accessed by smaller organisations.
Why is proportionality important in EU banking regulation?

The European Union’s banking landscape is very heterogeneous. On the one hand, there are some large internationally active institutions with diversified business models, while on the other hand there are a great number of very small, regionally active institutions with simple business models. The Basel framework targets large internationally active institutions and has been fully implemented by the EU legislator in order to ensure a common prudential standard and a level playing field in the EU banking sector. However, attention also needs to be paid to the substantial administrative burden and compliance costs faced by small institutions due to the increased complexity arising from the continuing development of banking regulation. More and more small institutions find it hard to maintain their market position in the face of an increasing regulatory and supervisory burden. For small banks to avoid such issues and their consequences, constant improvement is necessary in the application of proportionality. However, proportionality must not be based on the assumption that smaller and specialised institutions are exposed to fewer risks than large and diversified institutions, but on the premise that these risks are of a different nature. That being said, the aim of proportionality must be to arrive at tailored rules that are justified by the real risks. The introduction of ‘small and non-complex institutions’ in CRR 2 is a noteworthy recent achievement. It allows further harmonisation of proportionality in the European Union. Qualitative and quantitative criteria have been addressed, with the aim of implementing and applying tailored rules for the relevant institutions. The first step has been to introduce simplified reporting and disclosure requirements. The continuing development of proportionality should expand on this concept.

How does the Advisory Committee on Proportionality achieve its aims?

The EBA has been a frontrunner in the application of the proportionality principle and was very quick to set up the Advisory Committee on Proportionality (ACP), as envisaged by the ESAs’ review. The Committee plays a key role in advising the Board of Supervisors on how new regulation should take into account the heterogeneity across banks and, more generally, financial firms. The objective is to design a regulatory framework that is proportionate and well suited to intermediaries with different risks, business models, complexity and size.

In practical terms, the ACP supports the drafting of the EBA work programme, highlighting those areas requiring more efforts to implement proportionality. It also provides ex post feedback on how successful the EBA has been in this respect. In addition, the ACP defines the methodology for impact assessment and for measuring as accurately as possible the costs and benefits of financial regulation for the different categories of addressees. Overall, this ensures that EBA regulation is fit for purpose, adequately captures existing and emerging risks, and defines an incentive-compatible framework for the regulated entities.
Moving towards greater transparency in data: increasing efficiency and enhancing proportionality

During 2020, the EBA made progress with the implementation of its Pillar 3 roadmap. Its strategy is to foster the role of institutions’ prudential disclosures in promoting market discipline by developing a comprehensive and harmonised Pillar 3 framework. This will lay the foundations for an EU Pillar 3 central data hub that should further facilitate the usability and comparability of data. In particular, the EBA has worked on the following components of the Pillar 3 roadmap.

- Finalisation of comprehensive ITS on institutions’ Pillar 3 disclosures under Part Eight of the CRR. These ITS implement in a single regulation all prudential disclosures required in the CRR, bringing together and updating requirements previously set out in separate standards and guidelines and implementing new disclosure requirements.

- Finalisation of ITS on disclosure and reporting of TLAC/MREL, bringing together the resolution-related disclosure and reporting requirements included in both the CRR and the BRRD.

- Complementing the comprehensive Pillar 3 framework with the disclosure of indicators of global systemic importance by global systemically important institutions (G-SIIs).

On ESG disclosures, the EBA took a proactive role in several initiatives during 2020, driven by the Commission’s action plan of sustainable finance, with the aim of ensuring coordination and consistency of disclosures and of addressing institutions’ needs.

One of the main challenges that banks face when managing ESG risks and preparing their ESG disclosures is the availability of data. Comparable and reliable disclosures from their counterparties are key to making the necessary data available to banks. The NFRD review launched by the Commission in spring 2020 should contribute to addressing this issue at European level. In its response to the Commission’s NFRD consultation, the EBA conveyed the need for standardised disclosures applicable to a broader scope of corporates. Availability of data at international level is also an issue, particularly for those institutions with subsidiaries outside the EU. In a joint letter to the IFRS foundation in response to a consultation on this topic, the Chairs of the three ESAs underlined the need for international standards on non-financial information as a way to facilitate the availability and comparability of information beyond the EU.

The EBA’s work in advising the Commission on institutions’ taxonomy disclosures of information on environmentally sustainable activities is particularly relevant. This work was launched following the Commission’s call for advice to the three ESAs in September 2020 and was conducted in parallel with the consultation paper on ITS on ESG Pillar 3 disclosures, including a common proposal for a green asset ratio (GAR). The GAR should show to what extent institutions are financing environmentally sustainable activities and how they are supporting their counterparties in adapting and making the transition towards sustainability.

During 2020, the EBA also worked on the third component of the Pillar 3 policy framework and roadmap, which relates to disclosures by investment firms under the IFR. In particular, the EBA published a consultation paper on ITS on disclosure of own funds and worked on draft RTS on disclosure of investment policy by investment firms. These two sets of standards will be finalised in 2021.

When working on these policy products, the EBA has taken into account the best practices and recommendations on enhanced disclosures identified in the assessment report published by the Authority at the beginning of the year, based on the assessment of the Pillar 3 reports for a sample of banks.

The also EBA worked throughout 2020 to increase consistency between reporting and disclosure requirements. This work included standardising formats and definitions to facilitate institutions’ compliance with both requirements. This means that institutions will be able to use the same data to fulfil their reporting and disclosure obligations. The integration of disclosure requirements with supervisory reporting will improve the quality of the information disclosed, since it will be subject to supplementary scrutiny by supervisors, thus enabling all market participants to take more informed decisions. The EBA has published a mapping tool to facilitate implementation and provide clarity on aligned definitions.
Developing a common data dictionary methodology with EIOPA

The EBA and EIOPA are collaborating on a common methodological approach to define, communicate and validate the regulatory reporting requirements. By using common data standardisation and data dictionary models, and by focusing on data-driven and digital architectures, both institutions will achieve high convergence on their regulatory processes, improving integration and better supporting the collection, transformation, exploration and disclosure of regulatory data.

In 2020, the first draft of the data dictionary model was shared with authorities so as to obtain their contributions and prepare for the next stages of implementation.

Developing an impact assessment methodology to enhance efficiency and transparency in the application of proportionality

The EBA also developed an impact assessment methodology (IAM), intended to help policy experts to evaluate, using quantitative criteria, whether the application of proportional...
Following the finalisation of the impact assessment methodology internally within the organisation, the EBA intends to consult with the banking industry on the specific elements of this methodology. In addition, the EBA will call on credit institutions to express their views on the classifications of credit institutions and on the metrics used to assess the varying impact on different groups of institutions.

The proposed IAM framework creates a broad scope for assessing the need for the application of proportionality, which would be universally applicable and act as a reference point for all pieces of EBA prudential regulation.

The proposed IAM builds on the classification of institutions and use of metrics that the EBA already employs in its analyses, as well as on the classifications and metrics newly introduced by CRR 2. The classification of institutions captures different credit institutions’ risk profiles, size, systemic importance, complexity, business models and international activity.

The various metrics are aimed at identifying whether the impact of new regulation varies across different categories of institutions.

### Enhancing data exploitation and visualisation tools for data analytics

The EBA is confronted with a huge amount and wide diversity of banking data, including the common reporting (COREP) and financial reporting (FINREP) frameworks. One of the EBA’s key challenges is to improve the collection, dissemination and analysis of banking data in a secure and confidential manner for certain types of information. With the volume of collected data expected to continue increasing, the EBA remains a data-driven institution.

The EBA’s priorities include providing data & analytical tools for risk analysis by continuously developing and maintaining its risk dashboards and interactive tools. One visualisation tool worth mentioning in this context, published for the first time in December 2020, is the quantitative impact study on Basel III. The tool gives an overview of the main figures presented in the EBA monitoring report on the impact of Basel III, allowing users to quickly visualise the main results of the study, namely the effect of the reform on the minimum capital requirements by risk category, the changes in capital ratios and the potential shortfalls.

### Moving towards greater transparency in data

The EU-wide transparency exercise has been the EBA’s main data disclosure exercise since it was first launched in 2011. Its aim is to promote market discipline and foster confidence in the banking sector by releasing key comparable information.

In 2020, the EBA carried out a spring transparency exercise ahead of the usual annual exercise in autumn. This exceptional decision to further enhance the transparency of banking data came as a response to the unfolding of the pandemic and the consequent crisis. The EBA decided to postpone the 2020 EU-wide stress-testing exercise, instead dedicating resources to carrying out the spring transparency exercise as an additional data disclosure.

The decision had two major benefits. First, it relieved the banks of operational burdens, as the transparency exercise is fed entirely from the regular supervisory reporting data (FINREP and COREP frameworks), meaning a lower degree of involvement from participating banks. Second, the EBA provided market participants with continuous information, which was considered particularly crucial at a time of increased uncertainty.

The results of the spring 2020 transparency exercise were published in June 2020, when the EBA released detailed bank-by-bank data as of September and December 2019 for 127 banks from the 27 countries of the European Union (EU-28) and the EEA. The data – covering areas such as asset quality, capital ratios, profit and loss, and sovereign exposures – served as a benchmark for the condition of the banking sector before the pandemic crisis and as a starting point for the analysis of the impact made by the COVID-19 crisis.

The direct impact of this crisis on the banking sector was made more evident by the disclosure of data relating to March and June 2020 in the autumn transparency exercise published in December. The sample of banks, 129 banks from 26 countries of the EU-27/EEA, reflected the United Kingdom’s departure from the European Union. While six UK banks participated on voluntary basis for the individual disclosure, their figures were excluded from the EU aggregates. Asset quality tables were enriched with the newly collected data on legislative and non-legislative moratoria for the reference date of June 2020, in line with the ECB’s aim of keeping the supervisory framework up to date.
Although the semi-annual disclosure of transparency data was prompted by exceptional circumstances, it formed a basis for increased transparency and demonstrated the EBA’s ongoing efforts to provide the market and wider public with timely information, giving a clear picture of conditions in the banking sector.

**Developing the future central EU AML/CFT database**

The EBA is also to benefit from access to a new, central EU AML/CFT database that is currently being set up as mandated under Article 9a of the EBA’s founding regulation. This database will contain qualitative and quantitative information, including information on material weaknesses in institutions’ systems and controls that competent authorities across the EU have identified. It will enable the EBA (i) to ensure the timely exchange of relevant information among competent authorities and (ii) to request investigations or remedial action and to coordinate a common response where this is necessary in the light of the ML/TF risks that the EBA has identified. Competent authorities will be able to access information held in the database by submitting ‘reasoned requests’. Work on this database progressed throughout 2020, with a consultation paper on the two underlying technical standards expected in the first half of 2021, as already mentioned in the section Monitoring the implementation of the EU’s AML/CFT framework.

**First comprehensive collection of resolution data by the EBA**

In 2020, the EBA collected the first resolution reporting data that authorities receive from entities in accordance with the ITS on procedures, forms and templates for resolution planning.[17]

The process of data collection required coordination from both the EBA and resolution authorities in order to align the underlying IT systems. This exercise paved the way for strong linkage and interconnection in terms of data reporting between the resolution authorities and the EBA, placing resolution reporting on a par with supervisory reporting.

Now that is has access to the full scope of resolution data, the EBA has started to assess various ways to enhance the harmonisation and efficiency of the ITS. In addition, the EBA will be able to support its various products with relevant quantitative and qualitative data.

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Revising the EBA reporting framework and finalising its extension to the entire EU banking sector

In 2020, the EBA finalised and delivered the reporting framework 3.0, which reflects the changes brought about by CRR 2 and the Backstop Regulation. Following these amendments, new reporting requirements were introduced to allow supervisors to monitor the calculation of minimum loss coverage for NPEs. Further changes concerned the leverage ratio, a new net stable funding requirement and a new market risk framework established in the form of a reporting requirement and a new TLAC requirement. The EBA also implemented the amendments brought about by the CRR ‘quick fix’ in response to the COVID-19 pandemic.

Meanwhile, the new BRRD 2 has introduced three new requirements relating to disclosures, reporting and notification. The EBA has worked to prepare the specified uniform formats, templates and definitions so as to develop [i] the new ITS on disclosures and reporting on MREL and TLAC and [ii] the ITS on notification of impracticability of contractual recognition of bail-in, which specify when institutions need to notify the resolution authorities.

As well as finalising these products, the EBA has developed reporting and disclosure requirements for investment firms. This reporting framework for investment firms sets out requirements in terms of own funds, levels of minimum capital, concentration risk, liquidity, and the level of activity of small and non-interconnected investment firms. The EBA has established a proportionate regulatory framework taking into account the business of investment firms and their activity, size and interconnectedness.

Launching the European Centralised Infrastructure for Supervisory Data (EUCLID)

The European Centralised Infrastructure for Supervisory Data (EUCLID) went live in December 2020, when it started collecting data from all EU and EEA supervised institutions. This is an enormous step towards the EBA’s goal of becoming an EU data hub – collecting not only banks’ supervisory data, but also banking resolution and remuneration data, as well as information published in the EBA’s public registers, such as the Credit Institutions Register (CIR) and the Register of payment and electronic money institutions under PSD2.

With the upgrade to EUCLID, all regular data collections are received at the EBA via the same platform and with the same reference data. This ensures a much-simplified reporting process with a higher level of alignment between various data collections, improved data quality and a reduced burden for all stakeholders involved, including the EBA teams working with the data compiled.

The datasets collected are used to aid the EBA in increasing the transparency of the EU banking system, for example by regularly publishing banks’ data in EBA publications and in public registers, which allow users to take stock of all registered credit institutions, payment institutions and electronic money institutions in the EU and EEA. The expanded sample of banks for which the EBA collects data will also allow it to more efficiently fulfil its tasks in supporting the creation of a harmonised regulatory and supervisory framework for banks in the European Union.

Since the EBA will now have access to data on all EU and EEA credit institutions and banking groups, it will be able to perform a deeper analysis of the EU’s financial sector. This will cover not only the largest institutions but banks of all sizes, with different business models and other characteristics. As a result, the EBA will be better able to enhance the proportionality of the EU supervisory framework and assess the impact of new regulation on all types of banks.
Assessing and monitoring risks and vulnerabilities in the banking sector

One of the vital roles of the EBA is to contribute to securing the stability, integrity, transparency and orderly functioning of the EU banking sector. In order to achieve this, the EBA monitors and assesses market developments, identifying potential risks and vulnerabilities across banks. This in turn triggers policy actions where they are deemed necessary.

A key tool in this respect is the risk assessment report [RAR]. The 2020 RAR describes the main developments and trends in the EU banking sector and provides the EBA’s outlook on the main microprudential risks and vulnerabilities. In addition, the report serves as a tool to monitor and assess market developments and provide information to other EU institutions and the general public. To achieve this, it looks into quantitative information received through the supervisory reporting data submitted to the EBA on a quarterly basis for a sample of 162 banks from 29 EEA countries (131 banks at the highest EU level of consolidation from 27 countries), covering an estimated 80% of the total assets of the EU banking sector. In addition, the RAR uses qualitative sources of information such as the EBA risk assessment questionnaire (RAQ), addressed to banks and market analysts, as well as qualitative microprudential information.

The COVID-19 pandemic caused an unprecedented shock to the EU economy, leading to a sharp contraction in gross domestic product (GDP). Yet the 2020 RAR finds that EU banks’ solvency ratios were unaffected, thanks to a pick-up in capital and a comparatively slower increase in RWAs. The volume of NPLs was not adversely affected either, while the NPL ratio continued its trend of contraction. Volumes of loans and advances rose during the first half of 2020. This was driven not least by the fact that corporations made use of available loan commitments to secure liquidity and operational continuity. The rise was also due to the surge in banks’ cash balances that followed the extraordinary allotments of central bank liquidity. Loans were also helped by the public guarantee schemes deployed by fiscal authorities across Europe. European banks provided moratoria on loan repayments in an effort to alleviate adverse liquidity conditions for their borrowers. Stage 2 loans and forborne exposures rose, giving a first indication of a deterioration in asset quality. The cost of risk also increased, further dragging down profitability, which was already subdued owing to low interest rates and intense competition. The RAR acknowledges that banks were able to perform critical functions largely unhindered by containment measures. The report also points out that the increased use of ICT has grown further as a result of the pandemic, leading to greater technology-related risks.

Assessing risk with the RAQ and quarterly risk dashboard

The RAQ forms another essential monitoring and assessment tool for the EBA to identify the main risks and vulnerabilities in the EU banking sector. This survey, published twice a year, reflects banks’ and market analysts’ views on current and forthcoming developments in the EU banking sector. It covers a number of topical themes, including profitability, asset development and quality, funding and operational risks, as well as FinTech and green finance-related questions. In 2020, a total of 60 banks, spanning 24 countries, provided their views through the EBA’s RAQ, with the number of analysts ranging from 15 to 20.

The quarterly risk dashboard remains a key tool for the EBA’s regular risk assessment, helping it to provide granular EU aggregate and country-by-country supervisory data to third parties. It shows, for instance, that the EU weighted average for the CET1 fully loaded ratio reached 15.5% as of December 2020. The NPL ratio was below 3%, yet profitability [return on equity] reached the record-low level of 2% for the year. As a response to the COVID-19 pandemic, and in an effort to give market participants transparency in the form of up-to-date relevant supervisory data, the EBA introduced a comprehensive annex to the risk dashboard in 2020. The annex covers moratoria and loans backed by public sector guarantees. In addition, it includes a detailed breakdown of loans by segment [households, mortgages, non-financial corporates, SMEs and CRE] as well as a breakdown of non-financial counterparty [NFC] exposures by NACE codes.
The EBA additionally relies on market data, market intelligence and supervisory reports to support the decisions taken by the Board of Supervisors and to provide information to other public authorities. As part of its regular activities, the EBA produces an overview of liquidity and funding. This weekly product focuses on market developments and analysts’ views and is used to closely monitor developments in the EU banking sector. It is distributed among competent authorities, resolution authorities and other EU institutions.

The EBA also produced its annual report on asset encumbrance in 2020. This report contributes to the ongoing monitoring of the composition of funding sources across the EU. The asset encumbrance ratio decreased slightly in 2019 but rose significantly in the first half of 2020 to stand at 27.5%. Because of the COVID-19 pandemic, primary wholesale funding markets came to a virtual halt in spring 2020. As a result of this, banks made extensive use of central bank liquidity facilities to build precautionary liquidity buffers and to respond to the sharp increase in lending to non-financial corporates. At the end of 2020, the asset encumbrance ratio stood at 27.8%.

In addition to these regular assessments, the EBA dedicates additional resources to producing thematic risk reviews, leveraging the work of the Sub-group Vulnerabilities (SGV). In this regard, in 2020, the EBA published thematic notes on consumer credit and leveraged finance.

Consumer lending recorded substantial growth rates across most countries in the years before the COVID-19 outbreak. This growth is attributed to strong demand due to benign macroeconomic conditions, with declining unemployment as well as increasing disposable income and private consumption supported by consumer confidence. On the supply side, in a low to negative interest rate environment, banks were willing to provide unsecured credit, seeking yield and better interest rate margins. The thematic note finds that despite the increased growth, consumers’ loans still represent only a small part of the loan exposures of EU banks. However, the note calls for supervisors to closely monitor developments in this area so as to identify potential pockets of risk in a timely manner.

The note on leveraged finance acknowledges the expansion in the leveraged finance market over the past few years, accompanying a significant easing of credit standards. This easing has been especially marked in the leveraged loan segment, where a material increase in borrowers’ indebtedness and a relaxation of loan maintenance covenants are observed. For a sample of large EU/EEA banks, exposures to leveraged finance represent on average a relatively small proportion of total assets (2.5%). Nonetheless, for some large and highly interconnected banks, they account for a non-negligible share of total assets and capital levels.

Figure 16: Asset encumbrance – June 2020 reference date. Weighted average asset encumbrance by country.
Postponement of the 2020 EU-wide stress test and rollover of its methodology in 2021

As result of the sudden and unprecedented impact of the COVID-19 pandemic, the 2020 EU-wide stress test was postponed to 2021, so that banks did not need to devote their resources to the exercise but could focus on their core activities, which included supporting their customers.

As part of the preparations for the 2021 EU-wide stress test, the EBA initiated and centralised the process for identifying whether any adjustments were needed to the methodology. Although the aim was to keep the methodology as stable as possible, certain enhancements had to be made to take into account the changes in the external environment, including the changes to regulation. Besides incorporating the CRR ‘quick fix’ amendments, the adjustments to the methodology and templates focused on specific changes such as the recognition of FX effects for certain P&L items, and the treatment of moratoria and public guarantees in relation to the current COVID-19 crisis. The 2021 EU-wide stress-testing exercise is being conducted at the highest level of consolidation with a sample of 50 banks – 38 from Single Supervisory Mechanism (SSM) countries – covering approximately 70% of EU banks’ total assets.

The macro-financial scenario that was designed by the European Systemic Risk Board (ESRB) for the 2021 exercise narrative depicts an adverse scenario related to the ongoing concerns about the possible evolution of the COVID-19 pandemic in a ‘lower-for-longer’ interest rate environment.

The 2021 EU-wide stress-testing exercise was officially launched on 29 January 2021. The FAQs aimed at helping banks to interpret the methodology were published on the same date, along with the macro-financial scenario for the stress test. The results of the stress-testing exercise are expected to be published by the end of July 2021.

The traditional objectives of the EU-wide stress test, which include assessing banks’ resilience to stress, providing input to the SREP and facilitating market discipline through transparency, remain in place for the 2021 exercise. However, given the specific macro-economic conditions caused by the COVID-19 pandemic coupled with a high degree of uncertainty, the respective focus on the different objectives will depend on the conditions closer to the publication date. The outcome might also provide valuable input for making informed decisions on possible exit strategies from the flexibility measures granted to banks due to the COVID-19 crisis, or on the need for additional measures, should the economic conditions deteriorate further.

Pilot sensitivity analysis on climate risks

The EBA launched a pilot sensitivity analysis on climate risk with a sample of volunteer banks (29 EU banks from 10 countries) in 2020.

As climate risk stress-testing frameworks are still developing, this pilot is designed as a learning exercise for both the EBA and participating banks and is focused only on transition risk. The main objective is to explore data and methodological challenges to measure climate risk and assess banks’ readiness to apply the EU’s green taxonomy for classifying their exposures.

Overall, this pilot exercise represents the starting point for a more comprehensive discussion on how to embed climate risk in the stress-testing framework in the coming years. A summary of preliminary results was published in a dedicated box of the EBA RAR in December 2020. These findings result from the application of two data classification approaches based respectively on greenhouse gas emissions and NACE sectors. According to the outcome of this data classification exercise, more than half of the total exposures submitted by banks is allocated to sectors that might be affected by transition risk. In parallel, almost one-third of the total exposures is assigned to obligors with a CO2 emission intensity above the median.

In the first half of 2021, the EBA will publish a comprehensive report based on the findings of the pilot exercise, which will provide a broader analysis on the (financial) sustainability of banks’ own business models and investment strategies. In particular, the report will include the results from the application of the EU green taxonomy by banks to their exposures, along with a sensitivity analysis on risk parameters to quantify the impact on banks’ balance sheets resulting from Network for Greening the Financial System (NGFS) scenarios.
Addressing macroprudential risks

In face of the COVID-19 outbreak, the EBA advocated a macroprudential response aimed at supporting the EU banking sector. In particular, the EBA recommended that authorities make use of the flexibility embedded in the regulatory framework, including the release of macroprudential buffers. The EBA also contributed actively to the work launched by the ESRB concerning macroprudential responses and systemic risk identification during the outbreak.

The EBA continued to support the harmonisation and application of the European macroprudential framework in 2020 by delivering on mandates laid down in the revised CRD and CRR. In particular, the EBA provided guidelines on the appropriate subsets of sectoral exposures to which authorities may apply a systemic risk buffer. These guidelines are intended to enhance the application of the systemic risk buffer by providing a more targeted approach to systemic risk coverage. In addition, the EBA updated its RTS for the identification of G-SIIs following the revised rules text of July 2018 from the Basel Committee. The main feature of these revised RTS is the inclusion of an EU-specific score that may be used to fine-tune G-SII capital buffer rates to take into account the Single Resolution Mechanism. The EBA also published a report on the appropriate methodology to calibrate the buffer rates of other systemically important institutions (O-SIIs). One of the proposals from this report is the implementation of an EU-wide floor methodology. The aim of such a methodology would be to strengthen the stability of the EU banking sector and avoid the under-calibration of O-SII capital buffer rates, while allowing the relevant authorities to consider national banking sector specificities.

Finally, during 2020 the EBA provided several opinions concerning the application of risk weight floors by designated authorities across the European Union according to Article 458 of the CRR. In addition, the EBA continued to provided clarification on the interpretation of macroprudential provisions through EBA Q&As.

Assessing costs and benefits of the risk reduction measures package

The EBA applies the principle of better regulation in its efforts to further develop the Single Rulebook, striving to ensure that it performs sufficient impact assessments to support the development of its regulatory policies. In line with the relevant provisions of the EBA Regulation, the EBA bases its development of technical standards, guidelines, recommendations and opinions on rigorous impact assessments.

Figure 17: O-SII Capital Buffer Rates - Herfindahl-Hirschman Index (LHS), average O-SII buffer rate weighted by total assets (RHS); December 2018 reference date
gauging the incremental costs and benefits of the various policy options and proposed technical specifications.

This work includes undertaking quantitative impact studies, analysing individual and aggregate banking data, assessing appropriate methodologies for using such data, and performing qualitative analyses. It also takes into consideration the proportionality implications of the EBA’s proposals.

In 2020, the EBA delivered a series of cost and benefit analyses as part of its new mandates stemming from the risk reduction measures package. These covered the areas of market risk, Pillar 2, governance and remuneration, large exposures, recovery and resolution, and reporting and disclosure.

In addition, the EBA produced a quantitative impact study for the assessment of various scenarios based on the prudential treatment of software assets as specified in the relevant RTS published in 2020.

The impact assessment showed that the preferred option, satisfying all principles set out for the potential changes in the treatment of software assets, was the prudential amortisation of software assets. When considering the sub-options for the duration of the prudential amortisation, the EBA concluded that a three-year period would be the most appropriate.

In addition, the EBA’s impact assessment work covered the mandates under the new prudential framework for investment firms, as established under the IFD and IFR texts. It included an extensive exercise to collect data from around 400 firms located in 26 Member States. The results of the analysis have been used to inform the policy decisions in the relevant RTS.


Cost and benefit analyses involve assessing the impact of regulatory policies, providing evidence to better inform and support decision-making. I have led a series of important impact assessment studies that have supported the EBA’s regulatory products and guidelines on the revised market risk framework introduced in the CRR/CRR 2 and the new investment firms framework established under the IFD/IFR. My work has ranged from developing the templates for the data collection, analysing the data, performing complex quantitative analyses and supporting the discussions at a technical level involving several working groups. I have really enjoyed this work, as it involves a significant amount of collaboration across teams at the EBA, as well as extensive communication and cooperation with EU competent authorities. Managing this project has allowed me not only to gain significant expertise in the areas of market risk and investment firms but also to work with a great team, each one of us having a different field of expertise, allowing us to learn from and support each other. The results of the cost and benefit analyses have been used by my colleagues from the policy area to develop evidence-based regulatory products aimed at achieving their objectives in the most efficient and effective way.
When I joined the EBA 10 years ago, a colleague gave me a piece of advice: All you have to do is to survive the storm for the first couple of years, and then the sky will clear and it will be a smooth sail in a breeze. Good times lie ahead! That sounded promising...

Starting at the EBA with around 20 colleagues felt more like becoming a member of an extended family – with pluses and minuses, as is usually the case where large families are concerned! All services were basic, as they normally are for such an early-stage entity. However, we knew we would grow fast, so there was a sense of urgency and a genuine willingness to improve all the support functions as quickly as possible. This desire to continuously improve has become an integral part of our institutional DNA.

Over the last decade, we have faced a number of challenges that have made us stronger.

First, we moved offices from one part of London to another. On that occasion, we prepared everything in such a way that colleagues were able to simply leave their old desks on Friday evening and come to a brand-new office with fully functioning services on Monday morning. We were proud of that achievement – but little did we know at the time that it was just a rehearsal for something much bigger.

Brexit brought the fresh challenge of moving the agency to our new home in Paris.

There was no blueprint for moving an agency from one country to another. We learned as we went along. It was a highly complex undertaking, but we managed to welcome our staff to the brand-new office in Paris after a short three day-weekend break. The success of the project was down to a lot of good work done by all teams, notably Human Resources, IT, Legal, Communications, Finance and Procurement and Corporate Support. We also received generous assistance from the French authorities, who made us feel very welcome in our new home.

In the meantime, we had completely transformed the provisioning of IT services, migrating from dedicated data centres to the community cloud. This enabled us to become ‘location agnostic’, which facilitated the relocation to France.

Thanks to the proactive approach and foresight of the IT Team, as well as excellent work by the Human Resources and Corporate Support Teams, we were ready to continue with our operations in fully remote
Making the EBA more efficient and effective

Improving the EBA’s ethics framework and data protection

On 1 January 2021, the EBA launched a new Risk and Compliance Team within the re-named Legal & Compliance Unit, following an assessment of how additional focus can be brought to compliance-related topics. Recent experience in relation to conflicts of interest, increased demands with regard to data protection and generally increasing expectations of the EBA as a mature organisation all suggested a need to review the Authority’s existing arrangements.

The team brings together work on risk and compliance-related functions (ethics, data protection, anti-fraud, risk management, whistleblowing and access to documents) which, during the EBA’s growth phase, were handled by different parts of the Authority. The aim is to bring additional focus and resources to these areas, simplifying reporting lines and providing additional administrative support.

The EBA’s existing processes have served it well during its start-up and growth phases, but the new team will immediately start work on identifying areas for improvement. Priorities already identified include: (i) a review of ethics guidelines and processes to ensure effectiveness and alignment with best practices; (ii) digitalisation of processes to ensure efficiency, enhanced training and staff awareness on ethics and data protection issues; (iii) the implementation of a new internal framework for data protection issues to embed awareness of personal data processing within the Authority; (iv) a review of data-processing operations; (v) the establishment of an enhanced central risk management function; and (vi) the implementation of a new framework for external whistleblowers.

The EBA’s research activities

Disseminating research with a dedicated workshop, staff papers and seminars

In the context of its research activities, the EBA ran several events and published staff papers throughout the year.

The EBA Policy Research Workshop is an annual event bringing together economists and researchers from supervisory authorities and central banks, as well as leading academics,
to discuss how the banking sector is evolving and to identify the challenges for banks and their regulators.

Another annual event is the EBA’s call for papers, inviting the submission of policy-oriented, preferably empirical, research on topics related to banking regulation and supervision. Researchers from supervisory authorities and central banks are particularly encouraged to submit their papers for presentation and discussion. In 2020, the topic was ‘New technologies in the banking sector – impacts, risks and opportunities’. This theme was developed in a virtual environment with hundreds of participants from across the world.

Meanwhile, the Staff Paper Series (SPS) provides a platform for EBA staff to disseminate research and thematic analyses to a wider public. These papers include selected studies on financial regulation, supervisory policy and legal issues of general interest with the aim of stimulating discussion and public debate. In 2020, six EBA staff papers were published on various topics such as stress tests, sustainable finance, regulatory obstacles to cross-border acquisitions, digital currencies, MREL and RWA variability.

Finally, internal seminars for EBA staff are organised on a monthly basis, featuring external speakers. The aim is to promote discussion on regulatory and supervisory topics and contribute to improving the policymaking process.

What is the Eco-Management and Audit Scheme (EMAS)?

EMAS is a premium management instrument developed by the European Commission that helps companies and organisations to continually optimise their internal processes, reduce environmental impacts, and make more effective and efficient use of resources. EMAS-registered organisations commit themselves to evaluating, managing and improving their environmental performance, as well as communicating their environmental achievements to stakeholders and society in general.

EMAS is similar to ISO 14001, but there are two notable differences. First, ISO 14001 is an international standard, whereas EMAS is an EU one (governed by Regulation (EC) No 1221/2009). Second, EMAS has a stricter interpretation of how environmental processes should be managed compared with ISO 14001.
In addition, compared with ISO 14001, EMAS includes four additional elements, namely (i) obligatory legal compliance, (ii) staff participation, (iii) a public environmental statement and (iv) verification by independent environmental verifiers.

Why does the EBA implement EMAS?

We implement EMAS because we believe that the EBA has a role to play in promoting sustainable development. The agency’s mandate in environmental matters is strong, as it has been entrusted with tasks and powers relating to sustainable business models and the integration of ESG-related factors. With sustainable finance high on the EU agenda, the EBA wants to lead by example in reducing the direct environmental impact of its activities and becoming EMAS-registered.

We believe that, as a European agency, through our tendering and contracts we can shape a new green reality in line with global sustainable goals and the European target of climate neutrality. By including environmental criteria in our procurements, we send a message to the market that environmental certifications matter: they can bring a competitive advantage and enhance the reputation of our tenderers, partners and contractors. We commission green electricity, purchase eco-labelled services and goods, and hire environmentally conscious experts. All of this makes a difference.

What is the scope of EMAS at the EBA?

The EMAS covers all the EBA’s services and products. We feel responsible for our environmental impact, so we have launched initiatives to improve many areas of our activities, such as risk assessments, the organisation of our meetings, our travel arrangements and the management of our premises. In the coming months, we will introduce, among other things, an improved waste management system and new solutions aimed at reducing our consumption of energy and materials.

What has the EBA been doing to achieve EMAS certification?

Despite the impact of the COVID-19 pandemic and the closure of our premises, the first year of EMAS implementation at the EBA was very busy. We achieved major milestones in the project: the initial environmental review was finalised in April 2020, and the EBA environmental policy was approved in July 2020. Additionally, throughout the year we offered seven training sessions for managers and staff, including one virtual ‘World Café’ event for all. Altogether, this amounted to more than 25 training hours. We also communicated regularly via staff newsletters, emails, and the newsroom and EMAS sections of the EBA intranet. Consequently, all managers were trained on the EMAS requirements, and the majority of staff participated in the EMAS events (survey, training, meetings, etc.).

What is the plan for 2021?

We hope to be EMAS-registered by the end of 2021 and will work hard towards this goal. Our performance and preparations will be subject to quality audits by independent experts as well as external validation by EMAS verifiers. Official certification will be just a first step along the road of continuous environmental improvement.

Communicating and promoting the EBA’s work

In 2020, the Communications Team continued its efforts to promote the work of the EBA on several key topics included in its mandate and work programme, such as the risk reduction measures package and the implementation of Basel III standards, AML/CFT, FinTech and sustainable finance, together with annual publications such as the RAR and the transparency exercise.

The EBA also took an active role in informing the public about COVID-19-related measures for the banking sector. Its publications in response to the pandemic – in particular the thematic note on the COVID-19 moratoria and public guarantees, and the reactivation of the guidelines on payment moratoria – received a lot of attention from the press.

The Communications Team also reacted promptly to the closing of the EBA premises and the new remote working regime. It pro-
duced and implemented a new internal communication strategy to ensure that all staff were informed of French and EBA response measures, and to establish a ‘new normal’ form of communication that would bring the staff together under these extraordinary circumstances. To this end, it issued weekly staff newsletters, which featured video messages from the Chairperson, directors and teams. Similarly, the team also worked towards improving the EBA intranet, which remains the main internal communication channel and a place where staff can find all information relevant to their work, HR and COVID-19 developments.

To comply with the EBA Management Board decision to translate all final guidelines into all EU official languages, 88 final EBA products were proofread and 13 sets of guidelines were translated and published.

The EBA’s social media strategy has led to increased visibility, with the accounts reaching and surpassing 13,000 followers on Twitter and 60,000 on LinkedIn. To stay up to date with the latest developments and to reach out to an even larger number of followers, the Communications Team introduced an additional layer of social media promotion through Twitter ‘fleets’ (temporary tweets that disappear after 24 hours) and LinkedIn stories. In addition, the team continued to manage and invite new followers to the Chairperson’s LinkedIn profile.

For the EBA’s core projects and key publications, the Communications Team prepared extensive social media campaigns under specific hashtags. The Twitter campaigns included the statements related to the COVID-19 outbreak (#EBAvsCOVID19), the Annual Report (#AnnualReportEBA), the virtual event on financial education and literacy (#EBAFinEdu), for which it also carried out live tweeting, and the results of the transparency exercise (#EBA_TransparencyExercise). The tweet on the reactivation of the EBA guidelines on payment moratoria was the best-performing tweet of 2020, with more than 32,000 impressions, while the post on the guidelines on loan origination and monitoring has been displayed to users more than 46,000 times on LinkedIn.

Throughout the year, the EBA published 191 press releases and news items. It also organised, proactively or reactively, 80 interviews and background media briefings to promote further specific topics or provide additional clarity to media on sensitive topics. At the beginning of the year, media requests focused on the 2020 EU-wide stress test (later postponed to 2021), while after the COVID-19 outbreak, the focus shifted to the efforts of regulators in response to the pandemic and the impact on the EU banking sector. In addition, the Press Office continually addressed queries received by email or in telephone calls.

The EBA also continued to collaborate with the Publications Office of the European Union on the production of visual aids and graphic communication material to highlight how the EBA’s work contributes to topics such as ESG disclosure, depositor protection, financial education and integrated reporting.

The EBA website remained the main external communication channel with more than 493,293 visits, 232,375 unique visitors and 2,627,545 page views. In 2020, the Communications Team kicked off the ambitious project of revamping the EBA website and reviewing the overall communications strategy. As a first step, the team began a review of the stakeholder mapping on the website.

Meanwhile, 2021 will be an important year for the EBA as it celebrates its first 10 years of activity. With this significant milestone in mind, the Communication Team, in collaboration with other teams, has launched a series of initiatives including a commemorative logo, a three-minute video summarising the challenges, achievements and future priorities of the EBA, virtual seminars for staff with high-level speakers, a series of podcasts and a high-level conference for external participants, scheduled to take place on 26 October 2021.
Delivering digital services to support the EBA's core functions and internal administration

In 2020, the EBA's IT Unit registered a year of continued growth and transformation in line with the EBA's strategic objectives, its growing programme of work and the need to upgrade existing capabilities, despite all the challenges. EBA Information Technology Unit successfully ensured the business continuity of the agency in the midst of the COVID-19 pandemic, while also focusing on mission-critical workstreams, particularly the EUCLID programme and the future cloud-based platform for secure internal and external collaboration.

The EUCLID programme, which is the core digital element of the EBA’s strategy for the creation of an EBA data hub and the expansion of supervision to the entire EU banking market, enabled supervisory and resolution data to be collected. The programme also allowed the legacy ESP system to be replaced and laid the foundations for receiving supervisory data for the entire EEA banking population.

In the domain of digital and workplace solutions, the EBA launched the EBA Collaboration Platform. This was in response to the need for remote working and to the increasing demand from EBA users for ways to share documents and to exchange structured and unstructured information quickly and securely – both internally and with external counterparties. A number of workstreams were carried out in 2020, and the programme will continue in 2021. The goal is to further increase utilisation of the platform by internal users and to extend its use to external parties.

Another crucial activity in 2020, in line with the EBA’s strategic objective of operating a modern, virtualised, scalable, secure and cost-efficient IT cloud infrastructure, was the EBA’s work on the cloud risk assessment and strategy. EBA IT worked on preparing a roadmap towards enterprise-wide cloud adoption, along with the modernisation and migration of services and applications supporting the EBA’s products and services in the coming year.

Significant progress has been made towards further developing and modernising reporting and standardisation. In close collaboration with EIOPA, the EBA worked on the development of the data point model (DPM) and prepared the implementation of the necessary tools to support the evolution of the EBA’s integrated reporting framework, including the DPM releases, the full validation rules lifecycle, and the XBRL taxonomy packages. XBRL is the open international standard for digital business reporting.

In the area of service delivery, EBA IT prepared and executed the transfer of some of its non-core internal activities to the Managed Services Team. It also delivered on all production service level agreements (SLAs) to free-up resources and ensure professional service and application support activities, while reducing cost and complexity.

Internally, EBA IT improved its efficiency, strengthened governance, enhanced its security function and improved change management controls with clear SLAs to de-risk and increase the availability of its production platforms.
Supporting the deployment of the risk reduction measures package and the implementation of effective crisis management tools

Improving and updating guidance for the SREP of credit institutions and investment firms

As part of the EBA roadmap on the risk reduction measures package published in November 2019, ([18] the EBA is carrying out a review of the guidelines on common procedures and methodologies for the SREP and supervisory stress testing. The main objectives of this review of the SREP Guidelines are:

- to reflect the changes in the supervisory framework introduced into Directive 2013/36/EU (CRD) by Directive (EU) 2019/878 (CRD V);
- to update the guidelines taking into account other regulatory developments that have occurred in specific areas outside the CRD/CRR, but which have an impact on the necessary supervisory assessment;
- to enhance the guidelines by leveraging on the practical experience gained in carrying out the supervisory processes, and by better reflecting the principle of proportionality.

As part of the review of the SREP guidelines, the EBA is planning to provide additional guidance on the assessment of aspects such as AML/CFT, risk of excessive leverage, and liquidity and funding risk. Revisions will also be introduced, for instance, in the methodology for the assessment of governance arrangements and risks to capital, and in the determination of additional own funds requirements.

The consultation paper for the SREP guidelines is planned for publication by July 2021, while the final revised guidelines are expected to be published at the beginning of 2022.

At the same time as reviewing the SREP guidelines applicable for the assessment of credit institutions, the EBA is developing equivalent guidance for the assessment of investment firms. This guidance will be provided in two regulatory products as mandated by Directive (EU) 2019/2034 (Investment Firms Directive – IFD):

- SREP guidelines for the assessment of investment firms based on Article 45(2) IFD;
- RTS on how to measure the risks and elements of risk in determining additional own funds requirements for investment firms based on Article 40(6) IFD.

The development of a specific framework for the SREP of investment firms follows the introduction of a more tailored prudential regime defined in Regulation (EU) 2019/2033 (Investment Firms Regulation – IFR) and the IFD. While the work builds on the example of the existing SREP guidelines for the assessment of credit institutions, the framework for the SREP of investment firms will better reflect such firms’ particular characteristics by focusing on the specific risks that they face. In line with the principle of proportionality, it will also take into account investment firms’ different business models and scale of operations.

The consultation papers for both the guidelines and the RTS are planned to be published by September 2021, and the work should be finalised by mid-2022.

Conducting a quantitative impact study on IRRBB that will become part of the relevant RTS

The EBA is mandated under the CRD to draft the technical standards and guidelines listed below. It aims to carry out a public consultation before summer and expects to publish the draft technical standards and guidelines in March 2022.

- **Article 84(5) CRD** – RTS to specify a standardised approach (SA), including a simplified methodology for small and non-complex institutions (SNCIs), to manage interest rate risk in the banking book (IRRBB) considering its impact on net interest income (NII) and economic value of equity (EVE).

- **Article 98(5a) CRD** – RTS to specify the criteria to be used in the supervisory tests, carried out in the context of the SREP, to identify outliers on the basis of the impact that IRRBB would have on their NII and EVE.

- **Article 84(6) CRD** – guidelines to specify the criteria to be used by banks’ internal systems for managing IRRBB and by banks’ systems for assessing and monitoring credit spread risk in the banking book (CSRBB). In both cases, the guidelines will be drafted from the perspective of the impact that IRRBB and CSRBB might have on NII and EVE.

The full quantitative impact study on IRRBB, which will become part of the above RTS and guidelines, is expected to be completed in 2021.

Providing input into the European Commission’s review of the securitisation framework

With a view to assisting in the recovery of the securitisation market, in 2021 the Joint Committee of the ESAs will complete two workstreams that were initiated in the previous year.

First, following the consultation conducted with competent authorities and market participants in the second half of 2020, the Joint Committee of the ESAs will adopt the report referred to in Article 44 of the Securitisation Regulation in the second quarter of 2021. This report will provide the Commission with valuable feedback on the functioning of the Securitisation Regulation and the overall market, identifying drawbacks and weaknesses in the legislation, as well as areas for potential improvement. In particular, the report will play an essential role as source material in the context of the Commission’s deliberations for the upcoming review of the securitisation framework, as it will set out the ESAs’ assessment of aspects including:

- the implementation of the STS requirements and the functioning of the Securitisation Regulation as regards the due diligence, transparency and risk retention requirements laid out therein;

- competent authorities’ actions to tackle new material risks and emerging vulnerabilities in the securitisation market;

- market participants’ actions to standardise the documentation of securitisation transactions.

Clarifying the jurisdictional scope of application of the Securitisation Regulation

Another workstream that will be concluded in 2021 is the Joint Committee of the ESAs’ opinion on the jurisdictional scope of application of the Securitisation Regulation.

This opinion identifies the difficulties that arise when applying the Securitisation Regulation to transactions with a third-country component. These include, for instance, securitisations where one or more, but not all, of the sell-side parties (originator, sponsor, original lender or issuer) are located in a third country, making the extent of obligations and potential accountability of these parties under the Regulation unclear.

Meanwhile, EU-located institutional investors are subject to onerous verification duties when investing in third-country securitisations, as are the third-country subsidiaries of EU-head ed group. The opinion recommends that the Commission clarify the jurisdictional scope of application of the Securitisation Regulation to address this difficulty. To that end, the ESAs suggest that the Commission should issue interpretative guidance or seek to amend the relevant provisions in the Regulation.
Making progress in the development of the new prudential framework for investment firms

Throughout 2021, the EBA will continue its work on the new prudential framework for investment firms to ensure that prudential requirements are proportional, sound and efficient.

The EBA will work on the finalisation of technical standards on the calculation of the threshold for an investment firm to be required to apply for a credit institution’s authorisation and on technical standards related to the scope and methods of prudential consolidation of investment firm groups.

In addition to finalising these two technical standards, the EBA will develop the regulatory products envisaged for phase 2 of the EBA roadmap on investment firms (19), which will be submitted to the European Commission by June 2021.

During this phase, the EBA will consult on the ITS on supervisory disclosure. It will ensure that competent authorities publish supervisory data and information in a format and with a structure enabling such information to be compared across all Member States, thus promoting the convergence of supervisory practices in the European Union.

The EBA, together with ESMA, will also publish a list of instruments and funds which the smallest investment firms can use as qualifying own funds. This list will be separate from, but complementary to, the list of CET1 instruments currently published by the EBA.

The IFD and IFR will, for the first time, introduce mandatory liquidity requirements for investment firms across the whole of the European Union. The EBA will develop guidelines on the criteria under which an exemption of liquidity requirements will be granted for certain investment firms, together with technical standards on liquidity risk measurement. They will be developed in parallel with technical standards and guidelines related to the SREP for investment firms.

In addition, the EBA will implement systems and standardised templates for the information that competent authorities must provide to the EBA according to the IFD and IFR notification requirements. This will facilitate the exchange of information and enable the EBA to obtain consistent information in a harmonised way from all Member States.

Finally, the EBA will launch a ‘Single Rulebook Q&A’ tool, available via the EBA website, for the questions related to the IFD and IFR and the EBA technical standards.

Continuing the implementation of the international standards in the area of market risk

The new approaches to calculating capital requirements for market risk were introduced as a reporting requirement by CRR 2 in a first step towards implementing the FRTB. CRR 2 envisages that this reporting requirement should apply initially to the FRTB standardised approach (FRTB-SA) and at a later stage to the FRTB internal model approach (FRTB-IMA).

The FRTB-SA reporting requirement will start from the date of application of the Delegated Act referred to in Article 461a CRR 2, adopted by the European Commission. In this regard, the EBA has been developing the draft RTS envisaged in phase 3 of the EBA roadmap for the new market risk approaches, namely (i) the RTS on instruments exposed to residual risks, the (ii) RTS on emerging markets and advanced economies, and (iii) the RTS on gross jump-to-default (JTD) amounts. These complete the specifications needed for calculating capital requirements under the FRTB-SA. The EBA plans to finalise these draft RTS in the course of 2021 to ensure the smooth introduction of the FRTB-SA reporting requirements in the European Union.

In addition, on 4 May 2020, the EBA delivered final draft ITS on the FRTB-SA reporting requirements, which specify the templates and instructions for institutions to report their FRTB-SA calculations. The FRTB-SA reporting requirements were originally scheduled to apply from the first quarter of 2021. However, recognising the operational challenges faced by institutions due to the outbreak of the COVID-19 pandemic, the EBA proposed in its draft ITS, adopted by the European Commission, to postpone the starting date of the FRTB-SA requirement to the third quarter of 2021.

Improving resolution planning and execution

With the aim of ensuring the continuous improvement of the European Union’s crisis management framework, the EBA will address key elements of the crisis management regime. Its activities will cover all key elements of the regime, ranging from early intervention measures to the recovery process and, ultimately, the completion of any potential resolution process.

Key projects to be undertaken include:

- developing enhanced/new regulatory products, identified from the consultation process launched in 2020, on the effective use of early intervention measures;
- finalising resolvability guidelines to provide improved and consistent processes undertaken by resolution authorities;
- undertaking joint work with ESMA on the interaction between the bail-in process and securities laws, and exploring the mechanisms for loss transfer in EU cross-border banks;
- enhancing expertise at resolution authorities by facilitating the sharing of expertise and experience gained by those resolution authorities that have recently had to deal with a bank failure.

In addition to working on products to facilitate the management of a crisis, the EBA will also work on tangential issues such as the procedure for determining contributions to the Single Resolution Fund and procedures for the reporting of liabilities to resolution authorities.

Using prudential consolidation as a way to approach shadow banking

Following the approval of the risk reduction measures package, the EBA is finalising the draft RTS on the methods of prudential consolidation in order to reflect the amendments introduced in the Level 1 text, as well as the feedback received during the public consultation launched in November 2017.

In developing these RTS, the EBA has taken into consideration the different initiatives undertaken at the international level in order to strengthen the oversight and regulation of the shadow banking system. In this context, particular consideration has been given to the guidelines on identification and management of step-in risk [20] issued by the BCBS, with the aim of mitigating a potential spillover from the shadow banking system to banks. Building on these guidelines, the EBA has developed a list of indicators to guide the competent authority in identifying those undertakings that should be fully or proportionally consolidated for prudential purposes, taking into account the step-in risk that this would entail for the banking group.

The final draft RTS are expected to be submitted to the European Commission by the beginning of the second quarter of 2021.

Footnotes:

Reviewing and upgrading the EU-wide EBA stress-testing framework

During the summer of 2020, the EBA analysed the feedback received on the discussion paper on the future changes to the EU-wide stress-testing framework. Based on this feedback, the EBA Board of Supervisors has discussed the criteria to prioritise for the future potential changes and has also decided that the proposed ‘two-legged’ approach (bank view and supervisory view) will not be pursued in the revision of the framework. While the status quo remains an option, the work on improving the current framework will focus on further improving the realism and efficiency of the exercise, maximising the information value of the results and investigating further the role of top-down elements in the EU-wide stress-testing approach. As initially communicated at the end of July, a final decision on potential changes to the framework is still expected in the second to third quarter of 2021, and any potential changes may be implemented in the 2023 EU-wide stress test.

Becoming an integrated EU data hub, leveraging on the enhanced technical capability for performing flexible and comprehensive analyses

Transforming the EBA into a data-driven agency

By 2025, the Commission will be a digitally transformed, user-focused and data-driven administration. It will be endowed with a new generation of trusted and personalised solutions supporting its digitalised policy and administrative processes. These will increase its efficiency, effectiveness and transparency and facilitate the delivery of borderless digital public services across the European Union.

In order to drive efficiencies across the organisation, the EBA needs to reinforce its role as a data-driven agency. Its ambition is to become a data hub providing data and analytics services to internal and external stakeholders. The EBA therefore needs a comprehensive data strategy that is supported by its large ecosystem of external stakeholders and is fully aligned with its mandates and strategic objectives (see the EBA 2021 work programme [21]).

A formalised data strategy will bring obvious benefits for the EBA. First, it will enable a clear understanding of the focus areas. Second, it will allow the EBA to achieve its mandated objectives effectively and to monitor and improve the status of the financial system. Third, defin-
ing a data strategy will help the EBA to communicate its activities more clearly to external stakeholders.

Making the Basel III monitoring exercise mandatory from December 2021

The EBA intends to make mandatory the Basel III monitoring exercise, which has so far been conducted on a voluntary basis, and to expand it to include a broader and more stable set of credit institutions. The reason for making the exercise mandatory rather than voluntary is that there is a need to ensure (i) the integrity and high quality of the information provided, (ii) the commitment of credit institutions to participating in the exercise and (iii) the consistency of the data over time. The EBA will likewise ensure the consistency, accuracy and completeness of the data provided, thereby further enhancing the credibility of the exercise within the broader context of the EU data strategy.

In determining the sample of participating jurisdictions and institutions, the EBA aims to apply the principle of proportionality, taking into account the size and business models of the institutions. In this way, the interests of EU credit institutions will be appropriately represented in the supervisory standards drawn up by the BCBS. Similarly, the EBA will provide informed opinions and technical advice to the Commission, the European Parliament and the Council regarding the implementation of the BCBS standards into EU law.

The composition of the sample will avoid any unnecessary extension of reporting obligations to credit institutions that have not previously participated in the exercise, while at the same time ensuring that enough information on the various types of credit institution, in terms of size and business model, is made available to the EBA. In particular, the inclusion of a sufficient number of smaller credit institutions and business models will ensure that, in the future, the EBA has the data that it needs to (i) address proportionality considerations in its impact assessments and (ii) give technical advice or take positions on the BCBS standards and their application in the European Union. In the current circumstances, proportionality assessments can only be based on ad hoc data collections.

To compensate for the expansion of the sample and coverage, once the exercise has been made mandatory, information will be taken on an annual basis, rather than on a semi-annual basis as is the case for the voluntary exercise. This will relieve EU jurisdictions and correspondent credit institutions of a considerable burden.

Streamlining the reporting process: feasibility study on integrated reporting and cost of compliance study

As part of the ongoing work on proportionality in supervisory reporting requirements, in 2020 the EBA conducted an in-depth analysis aimed at identifying further areas for improving proportionality in the reporting framework. This analysis was carried out in accordance with the legislative mandate in Article 430(8) of the CRR, which asks the EBA to (i) measure the costs that institutions incur when complying with the reporting requirements set out in the EBA’s ITS on supervisory reporting, (ii) assess whether these reporting costs are proportionate with regard to the benefits delivered for the purposes of prudential supervision and (iii) make recommendations on how to reduce the reporting cost, at least for SNCIs.

The work on the study has been performed in close cooperation with industry stakeholders, which have provided significant input. This engagement with stakeholders has taken various forms, including comprehensive qualitative and quantitative questionnaires to which the EEA banks responded on a voluntary basis over the summer and autumn of 2020, as well as a number of focused interviews with selected banks and national industry trade bodies conducted at the beginning of 2021.
The outcome of the analysis and the resulting recommendations, aimed at reducing supervisory reporting costs to banks and making the reporting requirements and process more efficient, are expected to be finalised in the first half of 2021 and followed up in the EBA’s future work on supervisory reporting.

Article 430c CRR 2 mandates the EBA to investigate the feasibility of developing a consistent and integrated system for collecting statistical data, resolution data and prudential data. Under the mandate, the EBA is required to involve the relevant authorities in the preparation of the study. The overall objective of the feasibility study is to identify ways to streamline reporting requests and processes so as to reduce the financial and administrative burden and increase efficiencies for both reporting institutions and authorities.

The EBA recently concluded the fact-finding phase of the feasibility study. The focus was on understanding the design of various current projects on data integration, identifying challenges in reporting, and collecting evidence on potential design options, costs and benefits. This cost of compliance study has provided valuable input to the overall process. The results of the fact-finding exercise are reflected in the discussion paper on integrated reporting published by the EBA at the beginning of March 2021. The discussion paper is to serve as a basis for gathering additional evidence and opinions from different stakeholders. The EBA will complete the feasibility study by the end of the year, taking into account the feedback received.

Figure 18: Roadmap: collaborative approach towards integrated reporting

Developing appropriate tools for the standardisation, definition and validation of data

In 2020, EBA began working with EIOPA on a common methodological approach to data standardisation and on a data dictionary for regulatory data. The first draft of the data dictionary model is to be completed with contributions from authorities and with versioning and ownership metadata elements. The development of a common model for data validation and transformation will be made the first priority in order to support the quality check processes of the EBA data hub.
Developing the proportional reporting framework

Under CRR 2, the EBA is mandated to specify which additional liquidity monitoring metrics (ALMM) are to be applied to SNCIs. In this context, a proposal has been made for the ITS on supervisory reporting to be amended with regard to ALMM. This also presents an opportunity for making further amendments to the reporting templates and annexes, thus responding to the data needs of supervisors and leveraging on evidence from supervisory practices. The proposed amendments are also aimed at streamlining the reporting requirements in certain areas following the preliminary recommendations from the cost of compliance study. Beyond the area of ALMM reporting, other changes to the reporting recommended by the cost of compliance study will be implemented step by step.

In addition, the EBA will develop a number of technical standards on interest rate risks arising from non-trading book activities (IRRBB) which will have a significant impact on how banks measure, monitor and manage their interest rate risk. In the light of the development of the regulatory framework on IRRBB, the EBA aims to introduce new reporting requirements in this area to ensure that competent authorities have an appropriate understanding of banks’ ability to absorb significant interest rate shocks.

Continuing the development of a comprehensive and enhanced disclosure framework

The EBA will extend the scope of its comprehensive ITS on institutions’ Pillar 3 disclosures by (i) finalising the amending ITS on disclosure of indicators of global systemic importance by G-SIs, (ii) developing the amending ITS on disclosure of exposure to interest rate risk on positions not held in the trading book (IRRBB) and (iii) finalising the amending ITS on Pillar 3 disclosures on ESG risks. Regarding IRRBB, the EBA will introduce new disclosure requirements to enable users of information to understand banks’ IRRBB risk management objectives and policies and their exposures to any interest rate shocks.

The EBA is taking a step-by-step approach to developing the ITS on Pillar 3 disclosures on ESG risks, so that it can adjust or expand the ITS on the basis of the progress of other ESG-related initiatives in the European Union, notably the Taxonomy Regulation and the NFRD. The first ITS will be finalised during the course of 2021.

In addition, the EBA will finalise and submit its advice to the Commission on sustainability disclosures under Article 8 of the Taxonomy Regulation. This includes the definition of a green asset ratio and other key performance indicators that will show the level of alignment of institutions’ activities with the EU taxonomy and the extent to which they are environmentally sustainable according to the Taxonomy Regulation. The finalisation of the advice will be coordinated with ESMA and EIOPA, and with the EBA policy work on Pillar 3 disclosures.

Finally, the EBA will finalise the Pillar 3 technical standards on investment firms by finalising the ITS on disclosure of investment funds by investment firms and the RTS on disclosure of investment policy, defining uniform disclosure formats and associated instructions for the information required in Articles 49 and 51 of the IFR.
Fostering the sound development of financial innovation, consumer protection, payments and operational resilience in the financial sector

Making progress in supervisory convergence in consumer protection and fulfilling the new mandates on mystery shopping

The EBA will finalise its Consumer Trends Report (CTR) for 2020/21. In line with the previous edition, the CTR will describe the trends that the EBA has observed in respect to retail banking products and services within its regulatory remit and outline the topical issues that the EBA has identified as being relevant to consumers across the range of products and services. In addition, it will include two new chapters, respectively dedicated to COVID-19 and to measures the EBA has taken in the last two years to address the topical issues identified in the CTR 2018/19.

Moreover, the EBA intends to continue its work on supervisory convergence on the Guidelines on remuneration policies and practices relating to the sale and provision of retail banking products and services, which was paused due to the Covid-19 pandemic.

In light of the changes introduced to its founding regulation, the EBA will continue its work on its new coordination mandate on mystery shopping activities of national competent authorities and, in particular, publish a report on these activities.

Driving forward regulatory and supervisory convergence in the area of payment services, with a view to further improving security, enhancing competition and contributing to a level playing field in the market

In the area of payment services, the EBA’s main tasks in 2021 will be to:

- continue the work on the implementation, application and supervision of the requirements on payment account access;
- continue the work on the implementation and application of the security requirements set out in the EBA RTS on strong customer authentication and secure communication under PSD 2;
- monitor the progress made in the migration to SCA compliance for e-commerce card-based payment transactions and take further action if needed;
- continue the work on the implementation and application of the guidelines on fraud reporting under PSD 2;
- finalise the review of the guidelines on major incident reporting under PSD 2;
- develop new guidelines on limited network exemption under PSD 2;
- identify opportunities for additional convergence of supervisory practices among competent authorities.
Contributing to the European Commission’s digital finance agenda

The EBA will be awaiting the European Commission’s upcoming proposal for a new EU regulatory framework for AI in 2021. Subsequently, in line with the digital finance strategy, the EBA expects to work with the other ESAs to explore the possibility of developing regulatory and supervisory guidance on the use of AI applications in finance. The aim is to ensure clarity on supervisory expectations and mitigation of risks, so that AI-based solutions can be applied in the EU financial sector in a safe, sound and ethical manner.

Facilitating the use of RegTech solutions by financial entities

In 2021 the EBA will finalise and publish its comprehensive research into RegTech, building on the extensive work started in 2019 with the initial overview of RegTech developments across the EU. The EBA RegTech report (to be published by mid-2021) will draw on multiple RegTech use cases across the EU, particularly in the fields of AML/CFT, fraud detection, regulatory reporting, ICT security and creditworthiness assessments. Based on the outcome of this work, and in addition to its knowledge-building role among the supervisory community, the EBA will look to identify where additional focus might be needed to address challenges faced by financial institutions in adopting RegTech solutions and by RegTech providers entering the financial sector. It will also provide suggestions as to the role regulators and supervisors could play to facilitate the use of RegTech in order to support the digital transformation of the EU financial sector, including common approaches in that field and interoperability, in line with the European Commission’s digital finance strategy.

Supporting the use of SupTech tools by supervisory authorities

Regulators and supervisors need to adopt innovative technologies to take advantage of the benefits they provide. It is equally important to match the technological advances expected in the financial sector. SupTech, defined as the use of technology-enabled innovation by supervisory authorities to facilitate and enhance the effectiveness and efficiency of work, is therefore another area on which the EBA is focusing. The EBA’s work on this topic will be concentrated on the need to identify new trends and solutions that are in development or already being used by competent authorities. The EBA will also run workshops to share this knowledge within the supervisory community. Based on the findings, the EBA intends to propose a coordinated medium to long-term plan to facilitate SupTech development at EU level. In the increasingly digital financial ecosystem, it is crucial to foster the creation and use of SupTech applications, share knowledge, resources and skills, reduce the burden for individual competent authorities and ensure interoperability of competent authorities’ systems, facilitating cooperation and the rapid exchange of information.

Continuing to monitor financial innovation

The EBA’s role in financial innovation is explored through various tools including the European Forum for Innovation Facilitators (EFIF). The EFIF monitors applications of innovative technologies in the EU financial sector on a cross-sectoral basis, including blockchain, artificial intelligence, RegTech and SupTech. The EBA chaired the EFIF until the rotation of chairmanship to EIOPA in May 2020. One key area for the EFIF in 2021 is to explore how to facilitate cross-border innovation testing.

Meanwhile, the EBA will continue to work with competent authorities in helping to identify innovations in response to the European Commission’s call for advice on digital finance published in February 2021. The EBA, together with the other ESAs, will review the impact of innovations on finance sector value chains, platforms and the bundling of services, as well as tackling the issue of new mixed-activity groups. In addition, the EBA will review whether innovations in non-bank lending require supervisory or regulatory attention. It will also review the provisions of the DGSD relating to the protection of client funds.

The EBA FinTech Knowledge Hub will remain a primary means of engaging with industry and other external key stakeholders to inform the EBA work on innovation topics. It will enable the EBA to monitor the impact of FinTech on the whole financial ecosystem and to extend this to supervisory knowledge sharing.
Assessing the role and potential risks of digital platforms

As part of the EBA’s thematic work on FinTech and its ongoing monitoring of the regulatory perimeter, the EBA is carrying out an analysis of the use of digital platforms in the EU banking and payments sectors. To inform this work, in autumn 2020 the EBA launched industry and competent authority surveys to map digital platform use, and to identify the related opportunities, risks and challenges, including those relating to scaling and supervision. The EBA expects to report its initial conclusions in mid-2021 and will finalise the work taking into account the European Commission’s call for advice on digital finance, which includes a specific mandate for the ESAs in relation to digital platforms.

Contributing to the development of sound regulatory standards for crowdfunding platforms

In recent years, crowdfunding has become established as a form of alternative finance for start-ups and SMEs. Crowdfunding means that a service provider operates a digital platform to match or facilitate matching between prospective investors and lenders with owners of projects that need financing. In providing a wider set of project owners with better access to finance, crowdfunding can contribute to the completion of the CMU.

In order to remove regulatory obstacles and reduce regulatory arbitrage, a new Regulation on crowdfunding service providers has been issued recently, assigning two specific mandates to the EBA. These are to be fulfilled in close cooperation with ESMA and delivered in the course of 2021 and 2022. Both mandates relate to the need to:

- undertake an appropriate credit risk assessment of the crowdfunding project or project owner, based on solid information;
- provide adequate information to investors about the risks connected with the loan or the portfolio of loans that they are going to finance, as well about any contingency fund that the crowdfunding service provider may decide to set up;
- establish sound risk management practices for credit risk assessment and loan valuation, and disclose these policies and procedures.

Thus, the content of the two RTS assigned to the EBA will contribute to enhanced transparency, providing investors with appropriate tools to take well-informed decisions about the projects in which they are willing to invest. In turn, this will help improve the functioning of the market across the European Union.

Preparing the new mandates on DORA and MiCA

While the DORA and MiCA legislative proposals are currently going through the co-legislative process, the EBA has initiated a series of preparatory activities both from an operational and a policy perspective to ensure adequate and proactive organisation and planning ahead of the adoption of the texts. This includes establishing an internal project team that will assess what actions are needed to ensure operational preparedness for undertaking new regulatory, oversight or supervisory mandates.

In addition, given that the DORA proposal assumes significant joint work on the part of the ESAs, the staff of the ESAs are working closely together to analyse the proposed provisions and to constructively assess their implementation and impact. To this end, the Chairs of the ESAs have sent a letter [22] to the EU institutions proposing a number of modifications with the aim of improving the current legislative proposal and achieving its objectives in an effective manner.

Building the infrastructure in the EU to lead, coordinate and monitor AML/CFT supervision

In 2021, the EBA will build on the preparatory work carried out in 2020 to develop its AML/CFT infrastructure, continuing to fulfil its mandate to lead, coordinate and monitor the fight against money laundering and terrorist financing in the European Union. To that end, the EBA will focus on the following tasks:

- finalising the technical standards on the EBA’s central AML/CFT database, build the database and make it operational from early 2022 onwards;
- further embedding awareness of ML/TF risks in the prudential supervision process;
- fostering effective and consistent AML/CFT supervision of financial institutions across the EU by setting common supervisory expectations and standards and providing technical advice as necessary;
- strengthening supervisory cooperation and information exchange to support the development of a common understanding of ML/TF risks;
- supporting the development of a consistent approach to the use and oversight of innovative AML/CFT solutions as well as the supervision of FinTech providers and services.

The priorities are likely to be adjusted throughout the year, as negotiations over a new EU legal and institutional AML/CFT framework are expected to progress later in 2021. The EBA will ensure that the AML/CFT tools it is putting in place will support the new institutional framework as it develops.
Putting in place policies for managing ESG risks

Contributing to the European Commission’s sustainable finance agenda

After achieving its first milestones on sustainable finance in 2020, the EBA will make further progress in 2021 on fulfilling the mandates set out in its action plan on sustainable finance. These mandates relate in particular to (i) making proposals and recommendations on the management and supervision of ESG risks, (ii) defining sustainability-related disclosure standards, (iii) initiating an analysis on a specific prudential treatment and (iv) developing a framework for sustainable securitisation.

Making proposals and recommendations on the management and supervision of ESG risks

On the basis of its CRD and IFD mandates, the EBA will publish its final report on the management and supervision of ESG risks for credit institutions and investment firms. This report will set out the EBA’s proposals and recommendations on how institutions should address ESG risks and how supervisors should assess institutions’ ESG risk management practices.

Defining disclosure standards on sustainability

The EBA will contribute towards defining sustainability disclosure standards as mandated by the CRR through a consultation paper and final technical standards for Pillar 3 disclosures of ESG risks.

At the start of 2021, the ESAs jointly published technical standards on the content, methodologies and presentation of sustainability disclosures in accordance with their mandate under the SFDR. These standards cover the entity-level disclosure of principal adverse sustainability impacts and pre-contractual, periodic and website disclosures at product level. As a next step, the ESAs will prepare a consultation paper on the content and presentation of additional information to the SFDR product disclosures where the product makes sustainable investments contributing to environmental objectives in compliance with the Taxonomy Regulation. In the case of the banking sector, these disclosures will apply for credit institutions with portfolio management activities.

Analysing specific prudential treatment

The EBA is also mandated under the CRR to assess whether a dedicated prudential treatment of exposures associated substantially with environmental objectives would be justified. It will begin this assessment in 2021 and aims to issue a first discussion paper on the topic.

Developing a framework for sustainable securitisation

The EBA will deliver a report to develop a specific framework for sustainable securitisation as mandated by the Securitisation Regulation following the amendments introduced by the European Commission’s COVID-19 recovery package. The report will assess the implementation of the EU taxonomy and of sustainability-related disclosures in the area of securitisation. It will also investigate the possible effects of a sustainable securitisation framework on financial stability, the scaling-up of the EU securitisation market and bank lending capacity. In parallel, the EBA will work with the other ESAs to produce RTS on the content, methodologies and presentation of information in respect of sustainability indicators for STS securitisation.

Pursuing EU and international cooperation

Finally, the EBA will continue to engage in international sustainable finance-related efforts, in particular by actively contributing to the work of the BCBS High-Level Task Force on Climate Risk, the activities of the Network for Greening the Financial System and the European Commission’s sustainable finance agenda. In 2021, the Commission will make progress on the EU taxonomy by finalising two delegated acts: one to define technical criteria
for climate change mitigation and adaptation and one on requirements and methodologies to disclose how and to what extent financial institutions are aligned with the taxonomy, based on advice from the ESAs. The European Commission’s platform on sustainable finance, of which the EBA is a member, will advise the Commission on the taxonomy’s usability and how it could be used for transition purposes. It will also provide the commission with advice on the advantages and disadvantages of extending the taxonomy to cover low-impact and significantly harmful activities.

Establishing a culture of sound and effective governance and good conduct in financial institutions

The EBA will continue to benchmark remuneration trends biennially and publish data on high earners annually, in order to closely monitor and evaluate developments in this area. In addition, the EBA will review the guidelines on the data collection exercise regarding high earners and the guidelines on benchmarking of remuneration, taking into account the entry into force of Directive 2019/2034/EU and the mandate for the EBA to develop a separate set of guidelines for investment firms.

The EBA will also perform an analysis of the implementation of the EBA guidelines on the remuneration of sales staff.

Figure 19: High earners (December 2018 reference date)

<table>
<thead>
<tr>
<th>Business area at EU level</th>
<th>Total fixed remuneration (in EUR)</th>
<th>Total variable remuneration (in EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Supervisory function</td>
<td>1.8m</td>
<td>0.3m</td>
</tr>
<tr>
<td>2. Management functions</td>
<td>2.5m</td>
<td>0.2m</td>
</tr>
<tr>
<td>3. Investment banking</td>
<td>1.1m</td>
<td>2.7m</td>
</tr>
<tr>
<td>4. Retail banking</td>
<td>0.6m</td>
<td>3.0m</td>
</tr>
<tr>
<td>5. Asset management</td>
<td>3.0m</td>
<td></td>
</tr>
<tr>
<td>6. Corporate functions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Independent control functions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. All other</td>
<td>5.706m</td>
<td>4.117m</td>
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</tbody>
</table>

Total number of all staff within institutions by business area at the EU level:

- 1. Total number of high earners: 9.9K
- 2. Of which “Identified Staff”: 4.938

Total number of high earners:

- 3. Total number of high earners: 4,938
- 4. Of which “Identified Staff”: 4,242
Annexes

EBA organisational structure

Chairperson
José Manuel Campa

Executive Director
François-Louis Michaud

Prudential Regulation and Supervisory Policy
Isabelle Vaillant

Banking Markets Innovation and Consumers
Piers Haben

Economic Analysis and Statistics
Mario Quaglariello

Liquidity, Leverage, Loss Absorbency and Capital
Delphine Reymondon

Banking Markets, Innovation and Products
Slavka Eley

Economic Analysis and Impact Assessment
Olli Castren

Risk-based Metrics
Lars Overby

Conduct, Payments and Consumers
Dirk Haubrich

Risk Analysis and Stress Testing
Angel Monzon

Supervisory Review, Recovery and Resolution
Francesco Mauro

Reporting, Loans Management and Transparency
Meri Rimmanen

Statistics
Gaetano Chionsini

Composition as of 31 December 2020.
# Board of Supervisors

## VOTING MEMBERS

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>INSTITUTION</th>
<th>TYPE OF MEMBERSHIP</th>
<th>NAME</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>Österreichische Finanzmarktaufsicht</td>
<td>Head</td>
<td>Helmut Ettl</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Alternate</td>
<td>Michael Hysek</td>
</tr>
<tr>
<td>Belgium</td>
<td>Nationale Bank van België/Banque Nationale de Belgique</td>
<td>Head</td>
<td>Jo Swyngedouw</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Alternate</td>
<td>Jurgen Janssens</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>Bulgarian National Bank</td>
<td>Head</td>
<td>Radoslav Milenkov</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Alternate</td>
<td>Stoyan Manolov</td>
</tr>
<tr>
<td>Croatia</td>
<td>Hrvatska Narodna Banka</td>
<td>Head</td>
<td>Martina Divar</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Alternate</td>
<td>Sanja Petrinž Turković</td>
</tr>
<tr>
<td>Cyprus</td>
<td>Central Bank of Cyprus</td>
<td>Head</td>
<td>Constantinos Trikoupis</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Alternate</td>
<td>Kleanthis Ioannides</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>Česká národní banka</td>
<td>Head</td>
<td>Zuzana Silberová</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Alternate</td>
<td>Marcela Gronychová</td>
</tr>
<tr>
<td>Denmark</td>
<td>Finanstilsynet</td>
<td>Head</td>
<td>Jesper Berg</td>
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<td></td>
<td></td>
<td>Alternate</td>
<td>Thomas Worm Andersen</td>
</tr>
<tr>
<td>Estonia</td>
<td>Finantsinspeksioon</td>
<td>Head</td>
<td>Andres Kurppold</td>
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<td>Alternate</td>
<td>Kilvar Kessler</td>
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<tr>
<td>Finland</td>
<td>Finanssivalventa</td>
<td>Head</td>
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<td>Jyri Helenius</td>
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<td>France</td>
<td>Autorité de Contrôle Prudentiel et de Résolution</td>
<td>Head</td>
<td>Dominique Laboureix</td>
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<tr>
<td></td>
<td></td>
<td>Alternate</td>
<td>Emmanuelle Assouan</td>
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<tr>
<td>Germany</td>
<td>Bundesanstalt für Finanzdienstleistungsaufsicht</td>
<td>Head</td>
<td>Raimund Röseler</td>
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<tr>
<td></td>
<td></td>
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<td>Peter Lutz</td>
</tr>
<tr>
<td>Greece</td>
<td>Bank of Greece</td>
<td>Head</td>
<td>Spyridoula Papagiannidou</td>
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<td>Kyriaki Flisigpoulos</td>
</tr>
<tr>
<td>Hungary</td>
<td>Magyar Nemzeti Bank</td>
<td>Head</td>
<td>Csaba Kandracs</td>
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<td>Gergely Gabler</td>
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<tr>
<td>Ireland</td>
<td>Central Bank of Ireland</td>
<td>Head</td>
<td>Gerry Cross</td>
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<td></td>
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<td>Alternate</td>
<td>Mary-Elizabeth McMunn</td>
</tr>
<tr>
<td>Italy</td>
<td>Banca d’Italia</td>
<td>Head</td>
<td>Andrea Pilati</td>
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<td>Bruna Szego</td>
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<tr>
<td>Latvia</td>
<td>Finanšu un Kapitāla Tingus Comisija</td>
<td>Head</td>
<td>Santa Pungaille</td>
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<tr>
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<td></td>
<td>Alternate</td>
<td>Ludmila Vojevoda</td>
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<td>Lithuania</td>
<td>Lietuvos Bankas</td>
<td>Head</td>
<td>Marius Jurgilas</td>
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<td></td>
<td>Alternate</td>
<td>Jekaterina Govina</td>
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<tr>
<td>Luxembourg</td>
<td>Commission de Surveillance du Secteur Financier</td>
<td>Head</td>
<td>Christiane Campbell</td>
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<td>Martine Wagner</td>
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<tr>
<td>Malta</td>
<td>Malta Financial Services Authority</td>
<td>Head</td>
<td>Christopher Buttigieg</td>
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<td></td>
<td>Alternate</td>
<td>Pierre Paul Gauci</td>
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<tr>
<td>Netherlands</td>
<td>De Nederlandsche Bank</td>
<td>Head</td>
<td>Maarten Gelderman</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Alternate</td>
<td>Sandra Wesseling</td>
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<tr>
<td>COUNTRY</td>
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<td>TYPE OF MEMBERSHIP</td>
<td>NAME</td>
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<tr>
<td>Poland</td>
<td>Komisja Nadzoru Finansowego</td>
<td>Head</td>
<td>Kamil Liberadzki</td>
</tr>
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<td></td>
<td></td>
<td>Alternate</td>
<td>Artur Ratasiewicz</td>
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<tr>
<td>Portugal</td>
<td>Banco de Portugal</td>
<td>Head</td>
<td>Ana Paula Seira</td>
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<tr>
<td></td>
<td></td>
<td>Alternate</td>
<td>Luis Costa Ferreira</td>
</tr>
<tr>
<td>Romania</td>
<td>Banca Naţională a României</td>
<td>Head</td>
<td>Adrian Cosmescu</td>
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<td>Cătălin Davidescu</td>
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<td>Slovakia</td>
<td>Národná Banka Slovenska</td>
<td>Head</td>
<td>Vladimír Dvořáček</td>
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<td>Alternate</td>
<td>Tatiana Dubinová</td>
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<td>Slovenia</td>
<td>Banka Slovenije</td>
<td>Head</td>
<td>Primoz Dolenc</td>
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<td>Damjana Iglič</td>
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<tr>
<td>Spain</td>
<td>Banco de España</td>
<td>Head</td>
<td>Ángel Estrada</td>
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<td>Alberto Ríos Blanco</td>
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<tr>
<td>Sweden</td>
<td>Finansinspektionen</td>
<td>Head</td>
<td>Karín Lundberg</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Alternate</td>
<td>Björn Bångfoltz</td>
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**EEA/EFTA MEMBERS**

<table>
<thead>
<tr>
<th>Country</th>
<th>Institution</th>
<th>Type of Membership</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iceland</td>
<td>Fjármálaeftirlitót</td>
<td>Member</td>
<td>Unnur Gunnarsdóttir</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Alternate</td>
<td>Finnur Sveinbjörnsson</td>
</tr>
<tr>
<td>Liechtenstein</td>
<td>Finanzmarktaufsicht Liechtenstein (FMA)</td>
<td>Member</td>
<td>Markus Meier</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Alternate</td>
<td></td>
</tr>
<tr>
<td>Norway</td>
<td>Finanstilsynet</td>
<td>Member</td>
<td>Morten Baltersen</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Alternate</td>
<td>Ann Viljugrein</td>
</tr>
<tr>
<td></td>
<td>– EFTA Surveillance Authority</td>
<td>Member</td>
<td>Frank Büchel</td>
</tr>
<tr>
<td></td>
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<td></td>
<td>Jonina Sigrun Lausdottir</td>
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**OBSERVERS**

<table>
<thead>
<tr>
<th>Institution</th>
<th>Name</th>
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</thead>
<tbody>
<tr>
<td>Single Resolution Board</td>
<td>Sebastiano Laviska</td>
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</tbody>
</table>

**OTHER NON-VOTING MEMBERS**

<table>
<thead>
<tr>
<th>Institution</th>
<th>Name</th>
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</thead>
<tbody>
<tr>
<td>ESMA</td>
<td>Verena Ross</td>
</tr>
<tr>
<td>Eiopa</td>
<td>Fausto Parente</td>
</tr>
<tr>
<td>ECB</td>
<td>Fátima Pires, Carmelo Salleo</td>
</tr>
<tr>
<td>ECB Supervisory Board</td>
<td>Yves Mersch, Korbinian Ibel</td>
</tr>
<tr>
<td>European Commission</td>
<td>Martin Merlin, Dominique Thierrnott</td>
</tr>
<tr>
<td>European Systemic Risk Board</td>
<td>Francesco Mazzaferrro</td>
</tr>
</tbody>
</table>
Management Board

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

One new member, representing the French competent authorities, joined the Management Board in 2020. At the end of December 2020, the Management Board was composed of four members from participating SSM Member States (Croatia, France, Greece and the Netherlands) and one member from non-participating SSM Member States (Denmark). Given that elections for one vacant position were ongoing, the Board of Supervisors was aiming at ensuring that the representation was gender balanced and proportionate as well as reflecting the Union as a whole.

The Management Board met seven times in 2020 and given the Covid-19 pandemic and implemented measures, six meetings were held as teleconferences. To guarantee the transparency of its decision-making, minutes of Management Board’s meetings are published on the EBA website.

**MANAGEMENT BOARD COMPOSITION AS OF 31 DECEMBER 2020**

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>INSTITUTION</th>
<th>MEMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Croatia</td>
<td>Hrvatska Narodna Banka</td>
<td>Martina Drvar</td>
</tr>
<tr>
<td>Denmark</td>
<td>Finanstilsynet</td>
<td>Jesper Berg</td>
</tr>
<tr>
<td>France</td>
<td>Autorité de Contrôle Prudentiel et de Résolution</td>
<td>Dominique Laboureix</td>
</tr>
<tr>
<td>Greece</td>
<td>Bank of Greece</td>
<td>Sissy Papagiannidi</td>
</tr>
<tr>
<td>Netherlands</td>
<td>De Nederlandsche Bank</td>
<td>Maarten Gelderman</td>
</tr>
<tr>
<td></td>
<td>European Commission</td>
<td>Dominique Thienpont</td>
</tr>
<tr>
<td></td>
<td>European Banking Authority</td>
<td>Jo Swyngedouw (Vice-Chair)</td>
</tr>
</tbody>
</table>
# Banking Stakeholder Group

<table>
<thead>
<tr>
<th>MEMBER</th>
<th>SELECTED TO REPRESENT</th>
<th>INSTITUTION</th>
<th>NATIONALITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andrea Sità</td>
<td>Employees' representatives of financial institution</td>
<td>UILCA Italian Labor Union - credit and insurance sector</td>
<td>IT</td>
</tr>
<tr>
<td>Christian König</td>
<td>Financial institutions</td>
<td>Association of private Bausparkassen</td>
<td>BE</td>
</tr>
<tr>
<td>Christian Stiefmueller</td>
<td>Consumers</td>
<td>Finance Watch AISBL</td>
<td>AT</td>
</tr>
<tr>
<td>Christophe Nijdam</td>
<td>Users of banking services</td>
<td>Independent Consultant</td>
<td>FR</td>
</tr>
<tr>
<td>Concetta Brescia Morra</td>
<td>Top-ranking academics</td>
<td>University Roma Tre</td>
<td>IT</td>
</tr>
<tr>
<td>Constantinos Avgoustou</td>
<td>SMEs</td>
<td>Founder and Non-Executive Director of several enterprises</td>
<td>CY</td>
</tr>
<tr>
<td>Edgar Lutw</td>
<td>Top-ranking academics</td>
<td>Frankfurt School of Finance &amp; Management</td>
<td>DE</td>
</tr>
<tr>
<td>Eduardo Avila Zaragoza</td>
<td>Financial institutions</td>
<td>BBVA Group</td>
<td>ES</td>
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<tr>
<td>Elie Beyrouthy</td>
<td>Financial institutions</td>
<td>European Payment Institutions Federation</td>
<td>BE</td>
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<tr>
<td>Erik De Gunst</td>
<td>Financial institutions</td>
<td>ABN AMRO Bank</td>
<td>NL</td>
</tr>
<tr>
<td>Jennifer Long</td>
<td>Consumers</td>
<td>International Monetary Fund</td>
<td>IE</td>
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<tr>
<td>Johanna Lybeck Lilja</td>
<td>Financial institutions</td>
<td>Nordea Bank</td>
<td>SE</td>
</tr>
<tr>
<td>Johanna Orth</td>
<td>Financial institutions</td>
<td>Swedbank</td>
<td>SE</td>
</tr>
<tr>
<td>Julia Kriz</td>
<td>Financial institutions</td>
<td>Raiffeisen bank International AG</td>
<td>AT</td>
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<tr>
<td>Lars Trunin</td>
<td>Financial institutions</td>
<td>TransferWise</td>
<td>EE</td>
</tr>
<tr>
<td>Leonhard Rogneri</td>
<td>Employees' representatives of financial institution</td>
<td>Input Consulting gGmbh</td>
<td>BE</td>
</tr>
<tr>
<td>Martin Schmuzried</td>
<td>Consumers</td>
<td>Confederation of Family Organisations in the EU</td>
<td>CZ</td>
</tr>
<tr>
<td>Monica Calu</td>
<td>Consumers</td>
<td>Asociatia Consumers United/Consumatorii Uniti</td>
<td>RO</td>
</tr>
<tr>
<td>Monika Marcinkowska</td>
<td>Top-ranking academics</td>
<td>University of Lodz</td>
<td>PL</td>
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<tr>
<td>Patricia Suarez Ramirez</td>
<td>Consumers</td>
<td>ASUFIN</td>
<td>ES</td>
</tr>
<tr>
<td>Rens Van Tilburg</td>
<td>Users of banking services</td>
<td>Sustainable Finance Lab</td>
<td>NL</td>
</tr>
<tr>
<td>Rym Ayadi</td>
<td>Top-ranking academics</td>
<td>City University of London, Business School and CEPS</td>
<td>TN</td>
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<tr>
<td>Sebastien De Brouwer</td>
<td>Financial institutions</td>
<td>European Banking Federation</td>
<td>BE</td>
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<td>Søren Holm</td>
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<td>Nykredit Realkredit</td>
<td>DK</td>
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<tr>
<td>Tomas Kybartas</td>
<td>Consumers</td>
<td>The Alliance of Lithuanian consumer organisations</td>
<td>LT</td>
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<tr>
<td>Veronique Ormezzano</td>
<td>Financial institutions</td>
<td>BNP Paribas</td>
<td>FR</td>
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<tr>
<td>Vinay Pranjivan</td>
<td>Consumers</td>
<td>Associação Portuguesa para a Defesa do Consumidor</td>
<td>PT</td>
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## Budget summaries


## Establishment plan

<table>
<thead>
<tr>
<th>Category and grade</th>
<th>Establishment plan in EU budget 2020</th>
<th>Filled as of 31/12/2020</th>
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<tr>
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<tr>
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<tr>
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<tr>
<td>AST/SC5</td>
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<tr>
<td>AST/SC4</td>
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</tr>
<tr>
<td>AST/SC3</td>
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<tr>
<td>AST/SC2</td>
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<tr>
<td>AST/SC1</td>
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<tr>
<td><strong>Total AST/SC</strong></td>
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</tr>
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<td><strong>TOTAL</strong></td>
<td>154</td>
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</tr>
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</table>

(*) Three AST positions have not been offered.
(**) The filled posts include one temporary agent offer that was made by 31 December 2020.
Statistics on disclosure

The Legal Unit is the central point for dealing with requests relating to transparency and public access to documents. In 2020, within the remit of Regulation (EC) No 1049/2001, the Legal Unit provided its advice on 10 formal requests for access to information.
Facts and figures

**FINANCE**

**Annual budget avsexecution (in million EUR)**

- Total budget: **EUR 46 715 822**
- Budget execution: **99.2%**
- Carry forward to 2021: **EUR 389 320**

**PROCUREMENT**

- New contracts from open procurement procedures: **4**
- Contracts from negotiated procedures (+EUR 15 000): **6**
- EBA participation in other EU institutions’ framework contracts: **64**
- EBA participation in service-level agreements with other EU institutions: **16**

**HUMAN RESOURCES**

- Total number of staff: **215**
- Gender balance: **51.2%**
- 48.8% for the whole of the EBA (temporary agents, contract agents and seconded national experts)

- Vacancy notices published: **15**
  - of which 9 TAs, 1 CA, 5 SNEs
- Number of applications received: **796**
  - 81 interviewed
- Trainees with an administrative profile: **5**
- Trainees with a technical profile: **5**
HUMAN RESOURCES

Geographical balance
Breakdown by nationalities

Average number of training days by staff member: 1.86

PRESS AND COMMUNICATION ACTIVITIES

Number of communications outputs by month

Breakdown of interaction with media

- Interviews and background briefings: 80 (46 in 2019)
- Responding to external queries: 985
- Responding to information requests: 977

Translation and editing

- Final EBA publications proofread and published: 88
- Publications translated into the 22 official languages of the EU: 14
SOCIAL MEDIA

Twitter presence

Total tweets: 729
Total tweet impressions: 2,949,000

LinkedIn presence

Reactions

Impressions (thousands)

Reactions

Impressions (thousands)

Posts

Shares

Posts

Shares

Total tweets: 729
Total tweet impressions: 2,949,000
WEBSITE AND EXTRANET

- EBA website visits: 493,293(*)
- Page views: 2,627,545(*)
- Extranet requests for support: 1,262

(*) At the end of 2019 the EBA implemented the EDPS consent kit (cookie policy), therefore in 2020 the website monitoring tool only recorded users who accept cookies.

TRAINING PROVIDED TO COMPETENT AUTHORITIES

- EBA learning hub: 572 new accounts (1,340 total)
- E-learning courses: 5
- Virtual seminars: 6

EVENTS AND MEETINGS

![Bar chart showing the number of events and participants by month from January to December.](chart.png)
GETTING IN TOUCH WITH THE EU

In person
All over the European Union there are hundreds of Europe Direct information centres. You can find the address of the centre nearest you at: [https://europa.eu/european-union/contact_en](https://europa.eu/european-union/contact_en)

On the phone or by email
Europe Direct is a service that answers your questions about the European Union. You can contact this service:
— by freephone: 00 800 6 7 8 9 10 11 (certain operators may charge for these calls),
— at the following standard number: +32 22999696 or
— by email via: [https://europa.eu/european-union/contact_en](https://europa.eu/european-union/contact_en)

FINDING INFORMATION ABOUT THE EU

Online
Information about the European Union in all the official languages of the EU is available on the Europa website at: [https://europa.eu/european-union/index_en](https://europa.eu/european-union/index_en)

EU Publications
Multiple copies of free publications may be obtained by contacting Europe Direct or your local information centre [see [https://europa.eu/european-union/contact_en](https://europa.eu/european-union/contact_en)].

EU law and related documents
For access to legal information from the EU, including all EU law since 1952 in all the official language versions, go to EUR-Lex at: [http://eur-lex.europa.eu](http://eur-lex.europa.eu)

Open data from the EU
The EU Open Data Portal [https://data.europa.eu/euodp/en/home](https://data.europa.eu/euodp/en/home) provides access to datasets from the EU. Data can be downloaded and reused for free, for both commercial and non-commercial purposes.