22 March 2017

EBA Report

On the functioning of supervisory colleges in 2016

Contents

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Abbreviations

BRRD	Bank Recovery and Resolution Directive
CCB	capital conservation buffer
CRD	Capital Requirements Directive
EBA	European Banking Authority
EEA	European Economic Area
IFRS	International Financial Reporting Standards
IRB	internal ratings-based
NCAs	national competent authorities
NPL	non-performing loan
P2G	Pillar 2 guidance
P2R	Pillar 2 requirements
RWA	risk-weighted asset
SEP	supervisory examination programme
SREP	supervisory review and evaluation process
SSH	single supervisory handbook
SSM	Single Supervisory Mechanism
TSCR	total SREP capital requirement
WCCA	written coordination and cooperation arrangement

Executive summary

1. Within its mandate of facilitating supervisory cooperation and convergence between EU competent authorities, the EBA monitors the functioning of supervisory colleges and participates in some of their activities. To achieve a higher quality of monitoring of colleges and to adjust the level of monitoring to the specific requirements of the colleges, the EBA identified – through a relevant mapping exercise – 136 EEA cross-border banking groups and 76 active supervisory colleges. The latter were then clustered into two distinct groups:

    a. 20 closely monitored colleges, characterised by an intense level of communication between EBA staff, colleges and consolidating supervisory authorities;

    b. 56 colleges with which EBA staff interacted only on specific topics and in selected cases.

2. Overall, the level and quality of engagements in supervisory colleges have been further improved in the course of 2016 compared with 2015. Of the closely monitored colleges, 90% exceeded the EBA's expectations on the intensity of college interaction, compared with 74% a year ago. All closely monitored colleges, except two, organised at least two physical meetings and quarterly conference calls, i.e. ensured ongoing engagement. In 2016, EBA staff observed an increase in the number of conference calls organised in the college framework, which was partially due to college cooperation on the 2016 EU-wide stress test exercise.

3. The EBA considers it a good achievement that, in all of the closely monitored colleges, the quality and depth of the discussions have further improved over the course of 2016 compared with 2015. College meetings benefited from multilateral interactions, in-depth conversations and a certain degree of mutual challenging, and, on many occasions, the engagement reached a truly operational level. On the other hand, some areas require attention, including the timely circulation of meeting documents and the preparation of minutes.

4. The EBA observed an improvement in 2016, compared with 2015, in the submission and completion of the mapping templates, less responsiveness on the WCCAs and continuity in the submission of the examination programmes. A major finding is that, although in 2015 more than 50% of colleges did not finalise their WCCA, only one college finalised it in 2016.

5. EBA staff observed that the group risk assessment reports provided a good overview of risk profiles, with all material risk being captured and a sufficient level of detail included. However, EBA staff identified that one of the risk elements that should be further developed and properly reflected in the risk assessments is the business model analysis.

6. Although all colleges used mandatory templates for the group and individual risk assessments, there were still colleges that did not fully complete all parts of the mandatory annexes, mainly those parts that cover the breakdown of capital requirements by individual risks.

7. The EBA identified eight key topics for supervisory attention in 2016 stemming from its risk assessment and policy work, namely NPLs and balance sheet cleaning, business model sustainability, operational risk including conduct risk and IT risk, the implementation of SREP guidelines, IRB models (review and cross-border cooperation), the impact of IFRS 9, remuneration (bonus cap) and the EU-wide stress test (home-host cooperation and communication to the market). Colleges were expected to incorporate these topics into their supervisory work and discuss the themes relevant for the banking group under their supervision. All colleges discussed four topics directly linked to the risk assessments, i.e. NPLs and balance sheet cleaning, business model sustainability, operational risk and the EU-wide stress test, while other topics related to specific policy products were covered to a considerably lower degree within the college structures.

8. In almost all of the closely monitored colleges (18 out of 20), a dialogue between the consolidating supervisor and the relevant competent authorities was organised in a multilateral setting to discuss and agree upon the proposed capital and liquidity requirements. While the draft joint decision documents were circulated in colleges prior to the dialogue, material information on the proposed measures was omitted from many documents.

9. Overall, the joint decision documents of the closely monitored colleges on capital and liquidity were well reasoned and contained information on and/or references to the conclusions of the SREP, as reflected in the group risk/liquidity risk assessment reports. In many colleges, the mandatory risk-by-risk decomposition of the capital requirement was not shared and discussed in the college setting. This not only equated to non-compliance but also meant that the joint decisions missed the clear link between the outcome of the risk assessment and the reasoning for setting additional capital requirements (P2R).

10. All in all, the liquidity joint decisions were of a lower quality than the capital joint decisions, mainly because of their less granular reasoning, particularly for the subsidiaries; their lack of consistency in the structure of the document for the subsidiaries; or their weak connection between the reasoning in the liquidity joint decision document and the group liquidity risk assessment.

11. As the EBA introduced self-assessment templates for colleges monitored on a thematic or selected basis in 2016, the report contains substantial coverage of the activity of this group of colleges for the first time. Most importantly, no disagreements between college members on the capital and liquidity joint decisions were indicated in the self-assessment templates, although in cases when EBA staff became aware of any potential issues, the EBA proactively liaised with the consolidating supervisor and participated in college meetings over the course of 2016.

12. Supervisory colleges were required, for the second year, to assess group recovery plans for cross-border banking groups and to reach joint decisions in 2016. The formal joint decision process for 2016 was initiated for almost all of the submitted plans. However, this process was successfully completed (i.e. reaching a joint decision among all college members within the expected timeframe) in only 50% of the closely monitored colleges. As a matter of fact, the remaining colleges had to deal with challenges arising from the treatment of pre-existing individual recovery plans originating from before the BRRD came into force, and the appropriate coverage of individual entities in the group recovery plans. These issues have led to delays in reaching a joint decision, to a partial decision or to a situation in which no joint decision could be reached.

13. For some supervisory colleges (five) of those banking groups, for which the submission deadline of the group recovery plan had been in Q3 of 2016, the timeline for reaching the joint decision has not been discussed or agreed, as envisaged in the SSH module on the supervisory assessment of recovery plans, or it has been done with considerable delay.

14. As in every year, based on the experiences gained in 2016, the EBA has drawn up the Colleges Action Plan for 2017, which is presented in Annex I of this report.

1. The EBA's approach to college monitoring

1.1 The EBA's approach to college monitoring in 2016

15. Building on its experience gained over recent years, in 2016 the EBA defined two groups of colleges for its monitoring:

    1. closely monitored colleges;
    2. colleges followed on a thematic or selected basis.

16. While for the closely monitored colleges there was an intense level of communication between EBA staff, colleges and consolidating supervisory authorities, for the colleges followed on a thematic or selected basis, EBA staff interacted only on specific topics and in selected cases.

17. Furthermore, the EBA has, in 2016, for the first time introduced the concept of self-assessment templates. These templates allowed the EBA to capture a large amount of information related to joint decisions on capital, liquidity and recovery plans, as well as general college processes, for the colleges belonging to the second group. Further details on the self-assessment exercise, including the results, can be found in Section 8.

1.2 Cross-border banking groups[1]

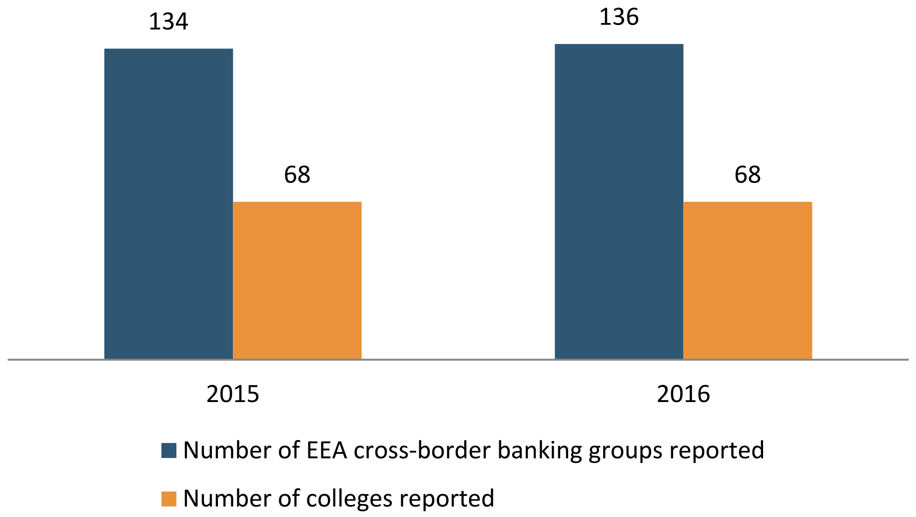
18. Based on the updated mapping of cross-border banking groups operating in the EEA, 136 cross-border banking groups with their parent company in the EEA and 131 third-country banking groups were identified.

19. Within the EEA, 68 active colleges have been reported. As can be observed in Figure 1, this number has remained stable since last year, as the restructuring and retrenchment of banking groups from cross-border activities has been offset by new banking groups or colleges being reported. Of the 131 third-country banking groups active in the EEA, eight have in place active colleges at the sub-consolidated level. Therefore, a total of 76 supervisory colleges have been identified, of which 20 were classified as closely monitored colleges and 56 as colleges followed on a thematic or selected basis.[2]

[1] For the first time, the exercise also included mapping of EEA investment firms. For many countries, no investment firms have been reported, while, for others, replies were incomplete or missing. Therefore, investment firms have not been included in the 2016 mapping exercise.

[2] Size, international presence and EEA cross-border presence were the dominant criteria used for the identification of closely monitored colleges. Further details on the selection criteria are provided in the *Report on the functioning of supervisory colleges in 2015*.

Figure 1 – EEA cross-border banking groups and active colleges: 2015 versus 2016



1.3 Supervisory convergence bilateral visits

20. During 2016, the EBA introduced a new tool into its supervisory convergence toolkit – bilateral visits to NCAs – to enable direct interaction on issues related to supervisory convergence.

1.3.1 Outcome of bilateral visits – ongoing work in supervisory colleges

21. With regard to the ongoing work in colleges, the visits proved to be beneficial for EBA staff, namely to help them better understand some of the issues arising in colleges from both the home and the host perspectives and to help them to provide more hands-on advice to individual colleges. Another benefit of the meetings was the availability of horizontal functions at the various authorities and the possibility to explore the role and engagement of horizontal functions in supporting and coordinating the work of colleges. Such reach is not possible in a normal college setting, as supervisors might be constrained by horizontal procedures.

22. The bilateral visits were also used as an opportunity to discuss the EBA's participation in colleges and its contributions. In general, the participation of EBA staff was highly appreciated, especially in terms of providing an update on regulatory topics, presenting developments in the EU banking sector and the institution-specific dashboard with peer group analysis, and sharing experiences from other colleges.

23. In addition, the meeting with mostly host authorities provided an excellent opportunity to have an in-depth discussion regarding their experiences and concerns pertaining to college work that would also help the EBA in its college monitoring activities.

24. Overall, the mutual college communication/interaction has considerably improved over the last two years. The majority of authorities consider the physical college meetings as the most effective tool for performing college tasks. The authorities expressed their view that other means of college interactions are also important but, however, are less effective than college meetings. For example, conference calls were clearly marked as a suitable means for a quick exchange of information, but as inappropriate for tackling complex issues such as risk assessments, joint decisions or recovery plans. The host authorities expressed their willingness to participate in more joint college activities, e.g. on-site visits.

25. The authorities unanimously raised the issue of very tight deadlines set in the Level 1 regulation, the most challenging one being the 1-month deadline for reaching the joint decision on liquidity, which is, in practice, very difficult to comply with.

26. The discussion on recovery planning confirmed that the authorities still, unsurprisingly, struggle with the new concepts introduced by the BRRD and implicitly expressed that they expect further support from the EBA. Even the bilateral visits were used as an opportunity to discuss concepts such as materiality or coverage of subsidiaries in the group recovery plans.

2. Organisational aspects of college work

27.This section focuses on important and consistent aspects necessary for the functioning of colleges. Colleges have been undertaking these tasks for a number of years, although with Commission Implementing Regulation (EU) No 2016/99 these tasks are better defined. The three tasks referred to are (i) mapping of group entities, (ii) WCCAs and (iii) SEPs.

28.The EBA observed an improvement in 2016, compared with 2015, in the submission and completion of the mapping templates, less responsiveness on the WCCAs and continuity in the submission of the examination programmes. Further details are elaborated below.

2.1 Mapping of group entities

29.The mapping template is defined by Commission Implementing Regulation (EU) No 2016/99. This year, 2016, has been the second year during which the consolidating supervisor and college members used a harmonised approach for performing the mapping of the EU banking groups' cross-border presence in EU and non-EU countries. The analysis of the mapping templates submitted from the 20 closely monitored colleges led to the following observations.

2.1.1 Main conclusions and progress achieved

30.All of the closely monitored colleges updated the mapping template following the form in Regulation (EU) No 2016/99. To this extent, a substantial improvement was achieved both in terms of the process and in terms of the content.

31.The process for the completion of the template was smoothly managed by consolidating supervisors, which involved, appropriately, college members, sometimes also with ad hoc consultations. Moreover, this year, the mapping template of cross-border banking groups' presence included information for all banking entities of the group, regardless of their country of authorisation (i.e. SSM, non-SSM or non-EU countries).

32.As for the content, the majority of the fields were duly completed by both the home and the host authorities for the entities under their supervisory remit, providing information on, for example, the use of waivers for prudential and liquidity requirements, the designation of the entities as other systematically important institutions and criteria to assess importance for the group or for the local market.

2.1.2 Areas where improvements are still needed

33.For some of the closely monitored colleges, information on non-EEA entities was not duly completed. With regard to the criteria used for determining importance for the group or significance for the local market, for some of the closely monitored colleges these criteria were not clearly specific, with general references included only in the template (e.g. some percentages of the gross domestic product).

2.2 Written coordination and cooperation arrangements

34.The establishment and functioning of supervisory colleges are based on WCCAs between the consolidating supervisor and college members. A template for colleges' WCCAs was introduced by Regulation (EU) No 2016/99, serving as a basis for agreeing and documenting all college-specific arrangements on practical aspects of college functioning and interaction between participants.

2.2.1 Main conclusions and progress achieved

35.A major finding is that, although in 2015 more than 50% of colleges did not finalise their WCCA, only one college finalised it in 2016. A further five colleges were considering updating their plan in 2016 and two have updated their plan.

36.Of those that had a WCCA in place in 2016, the terms of observers'[3] participation in the supervisory college were always provided in the WCCAs. Such information describes the details of their involvement in the various tasks and activities of the college, and their rights and obligations with regard to information exchange. This is an important aspect of the WCCAs and a possible source of further disagreements between college members if not duly specified.

2.2.2 Areas where improvements are still needed

37.For 45% of the closely monitored colleges, the WCCAs have not been finalised yet, even though the process for their development started in 2015. This delay was mainly due to diverging views of college members in some areas of the WCCAs. EBA staff provided guidance to consolidating supervisors and college members on areas that seemed to cause difficulties.

38.With the establishment of resolution colleges under the BRRD in 2016, the EBA also recommended that colleges include in the WCCAs information on the interaction between supervisory colleges and resolution colleges to support interaction and coordination between these two structures; however, only a small number of colleges included this information.

[3] Third-country supervisory authorities, insurance supervisors, conduct supervisors, NCAs from Member States in the euro area and resolution authorities.

39. Finally, practical arrangements agreed between college members and included in the WCCAs, e.g. the exchange of risk indicators for the parent entity and its subsidiaries on a quarterly or semi-annual basis, were not implemented during 2016 for 80% of the closely monitored colleges.

2.3 College supervisory examination programme

40. The college SEP, as referred to in Article 99 of the CRD and further elaborated in Article 20 of the ITS, on the functioning of colleges is a tool for supervisory colleges to organise their work annually. All college members should be involved in providing contributions for the consolidating supervisor to be able to put together one coordinated programme for the college. The SEP should be communicated to all college members.

2.3.1 Main conclusions and progress achieved

41. In 2016, all but one of the closely monitored colleges developed and submitted the SEP for their college. Of those submitted, 85% were circulated in the first half of the year and the rest were circulated shortly afterwards.

2.3.2 Areas where improvements are still needed

42. The main idea behind the preparation of the college SEP is to inform all relevant parties in a supervisory college about the planned supervisory activities and to allow activities across participating authorities to be coordinated. Having said that, the college SEP only provides a benefit to college members if its preparation starts immediately after the joint decision is reached (Article 11 of Regulation (EU) No 2016/99) and it is completed in due course. The preparation of the college SEP for 2016 started late in many of the closely monitored colleges, and not immediately after the conclusion of the 2015 joint risk assessment and decision process, which resulted in the late finalisation of the document (i.e. May-July 2016), endangering its practical application.

43. Although the consolidating supervisors are circulating the documents in draft form via email, allowing college members the opportunity to comment, it still seems that there is a lack of discussion on the SEP in the physical college setting.

44. In addition, the vast majority of SEPs do not include any joint work other than the joint decisions reflecting a lack of coordinated work outside the college legal requirements. In a couple of cases, there were records of two competent authorities undertaking on-site activities at the same entity, but it was not made clear if there was joint activity planned.

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

3.1 Main conclusions and progress achieved

45. Overall, the level and quality of engagements in supervisory colleges have been further improved in the course of 2016 compared with 2015. The most notable achievements were the following.

46. Of the closely monitored colleges, 90% exceeded the EBA's expectations on the intensity of college interaction, compared with 74% a year ago. All closely monitored colleges, except two, organised at least two physical meetings and quarterly conference calls, i.e. ensured ongoing engagement.

47. In 2016, EBA staff observed a substantial increase in the number of conference calls organised in the college framework, which was partially due to college cooperation on the 2016 EU-wide stress test exercise. Various ad hoc calls were also convened on institution-specific topics.

48. The EBA considers it a remarkable achievement that, in *all* of the closely monitored colleges, the quality and depth of the discussions have further improved over the course of 2016; moreover, all received a 'good' score for this assessment criterion, compared with last year when 22% were assigned a 'satisfactory' score. College meetings benefited from multilateral interactions, in-depth conversations and a certain degree of mutual challenging, and, on many occasions, the engagement reached a truly operational level.

49. The consolidating supervisor maintained a very good level of active interaction with EBA staff throughout 2016 in 85% of colleges, which shows further improvement from the 74% in 2015.

3.2 Areas where improvements are still needed

50. In spite of the above-mentioned main achievements, the following areas require further attention from supervisors working with colleges:

a) In a quarter of the colleges, (i) the agenda did not cover all relevant topics in view of the objectives of the meeting in 2016, (ii) the agenda was not circulated for comments to host authorities or (iii) topic suggestions for the bank presentation were not explicitly sought by the consolidating supervisor from host authorities.

b) There was a recurring issue of the meeting documents not being distributed well in advance of the meetings. In 60% of colleges, presentations were shared 1-3 days prior to the meetings, which did not ensure ample time for preparation.

c) The EBA observed cases – even in 2016, although these were exceptional cases – of some host authorities only delivering short oral updates at college meetings, which did not enhance the delivery of the content.

d) In five colleges, minutes were either not prepared for all interactions or prepared but not shared for comments. In one college, minutes have still not been prepared and shared, which was reflected in its 'improvement needed' score.

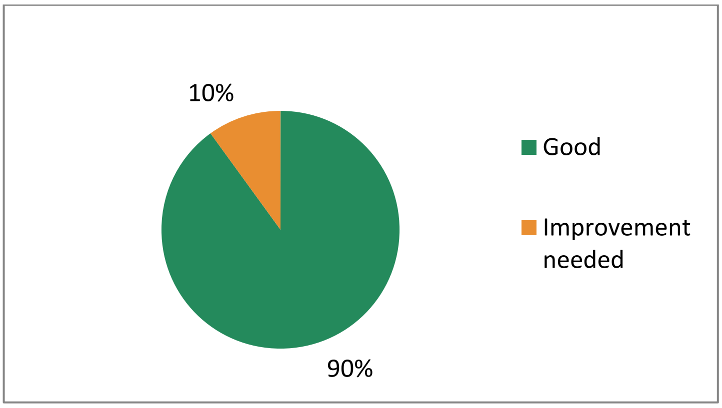
3.3 Intensity of college interaction

51. The EBA continued with the approach launched in 2014 and set the expected minimum level of interaction for each closely monitored college and communicated it individually to the consolidating supervisor, with the aim of facilitating ongoing supervisory engagement within the college framework.

52. The expectations generally included quarterly college interactions in a suitable college setting, of which two interactions were recommended as being in the form of physical meetings to lead to more efficient interactions among competent authorities. The EBA considered the intensity of college interactions to be 'good' if more interactions were performed than the expected minimum.

53. Supervisors across Europe have persistently been increasing their efforts to cooperate with fellow supervisors in colleges over the last 3 years. While in 2014, only half of the closely monitored colleges were assigned a 'good' score, this percentage in 2015 was 74% and in 2016 was 90%. This trend clearly shows the significant accomplishment of colleges and that the EBA's practice of setting minimum expectations encouraged more intensive cooperation among banking supervisors and contributed to better functioning supervisory colleges throughout the EU. The engagement level fell short of the EBA's expectations in only two colleges.

Figure 2 – Frequency/intensity of college interactions

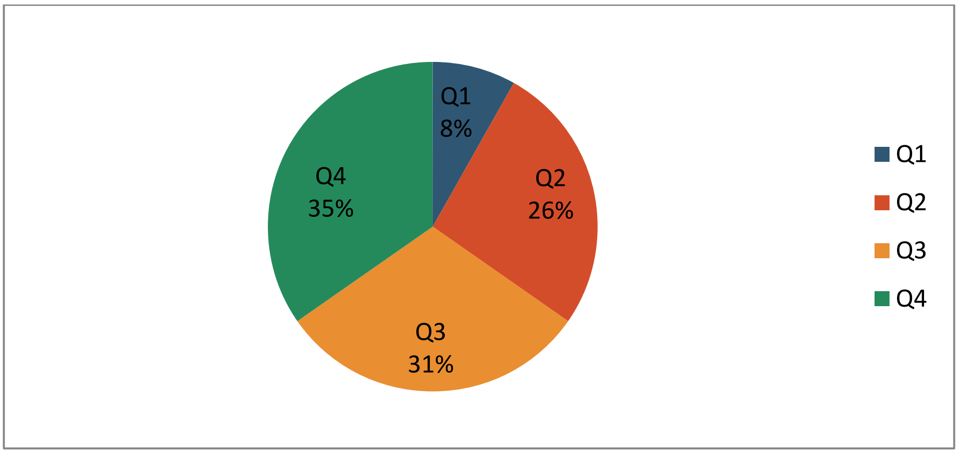


3.4 College meetings and conference calls

54. The 20 closely monitored colleges held a total of 49 meetings during 2016, of which 45 were attended by EBA staff. EBA staff observed a substantial increase in the number of conference calls organised in the college framework, which was partially due to college interactions expected at the main milestones of the 2016 EU-wide stress test exercise. To assist relevant competent authorities in ensuring effective home-host communication during the EU-wide stress test, the EBA developed a home-host protocol for the 2016 EU-wide stress test exercise. Several consolidating supervisors organised calls to discuss the planning of the joint decision process or exchanging information on SEPs.

55. The number of college meetings across quarters is now more evenly distributed than in previous years. The greatest number of meetings was organised in Q4 (35%) followed by a strong Q3 (31%) and a Q2 in which 26% of the meeting were organised. The typical focus of Q2-Q3 meetings is discussion of the group risk/liquidity risk assessment and the draft joint decision, while Q4 meetings were often dedicated to the finalisation of the joint decisions documents and/or the assessment of the group recovery plan.

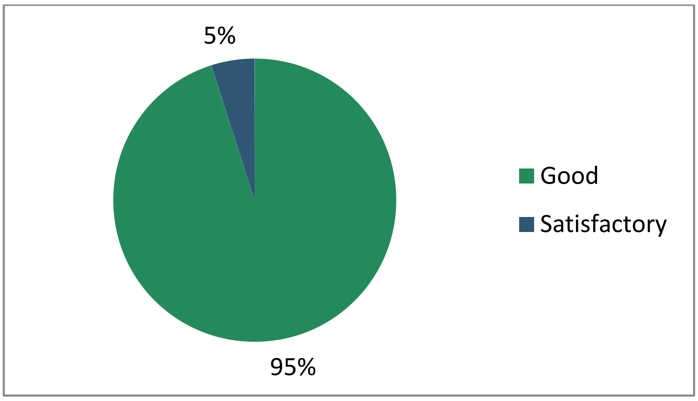
Figure 3 – Distribution of physical college meetings by quarter



3.5 Quality of college meetings

56.The overall assessment of the quality of the college meetings, in which a combined score is given, has been conducted by relying on the *main driving forces of successful and effective college meetings* identified by EBA staff: (i) the agenda of the meetings, (ii) meeting documents and presentations, *(iii) the quality and depth of the discussions*, which has the greatest effect on the overall score and (iv) the minutes of the meetings.

Figure 4 – Quality of college meetings: overall score



57.'Good' scores have been assigned to 95% of the colleges, compared with 83% last year, so colleges continued with their good practices and further improved the quality of their interactions.

58.In the following sections, the report provides an insight into the assessment of the four main driving forces (agenda, meeting documents, quality and depth of discussions and minutes) that shape the overall quality of college meetings.

3.5.1 Agenda and overall structure of the meetings

59. The vast majority of the closely monitored colleges (15 out of 20) followed good practices when preparing for the college meeting, e.g. invited other college members to comment on the agenda prior to the meetings. If the bank management participates in the meeting, the EBA encourages the consolidating supervisor to consult college members on topics to be covered by the bank representatives prior to the meeting, so that host authorities can be directly informed on issues they are interested in.

60. Improvements are expected in five colleges, as in these colleges (i) the agenda did not cover all relevant topics in view of the objectives of the meeting in 2016, (ii) the agenda was not circulated for comments to host authorities or (iii) topic suggestions for the bank presentation were not explicitly sought by the consolidating supervisor from host authorities.

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

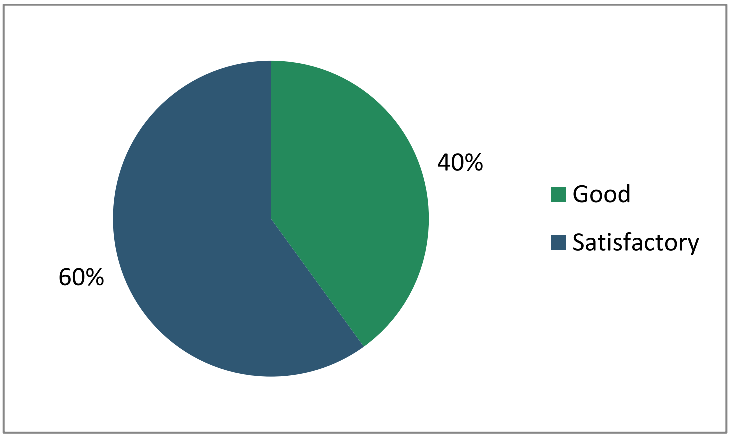
3.5.2 Meeting documents[4]

62. EBA staff's experience is that one of the preconditions of truly in-depth discussions at college meetings is that the meeting materials (presentations and other meeting documents) are distributed well in advance of the meeting, leaving time for participants to prepare. Therefore, the EBA suggests that the documents be made available at least 5 days before the meeting, which requires efforts not only from the consolidating supervisor, but also from host authorities and the bank representatives. Given that the bank's update is an important part of the physical meeting and generally covers complex issues, it is reasonably expected that the bank's presentation is shared in a timely manner as well.

63. This good practice was followed by 40% of colleges, while, in the rest of the colleges, not all presentations were shared well in advance of the meetings or they were circulated but only 1-2 days prior to the meetings, which did not provide ample time for preparation.

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

Figure 5 – Meeting documents/presentations



64.The EBA observed cases – even in 2016, although these were exceptional cases – of some host authorities only delivering short oral updates at college meetings, which did not enhance the delivery of the content. Therefore, all college members are encouraged to provide a presentation on the key risks and vulnerabilities facing the bank in their jurisdiction, as this would help other members to understand the issues better and to facilitate the discussion among the college participants.

3.5.3 Quality and depth of discussions

65.The EBA considers it a remarkable achievement that, in all colleges, the quality and depth of the discussions have further improved over the course of 2016; moreover, all colleges received a 'good' score for this assessment criterion, compared with last year when 22% were assigned a 'satisfactory' score.

66.The overall quality and depth of discussions at the meetings in general was very good. The vast majority of meetings benefited from multilateral interaction, with most college members taking an active part in the discussions. The degree of involvement from hosts depended often on the type of meeting; for example, in conference calls in which the objective was mainly the consolidating supervisor providing an update, the interaction from hosts was generally low.

67.The college activities were focused on achieving a common understanding of the issues and the communication was generally effective. In-depth conversations were noted on various subjects at college meetings, among other things, on corporate culture, on the evaluation of the activity of the board and on other governance issues.

68.Setting quantitative capital requirements also revealed a high degree of engagement in many colleges following the sharing of the methodological underpinnings and discussions on the scoring under the SREP. Furthermore, the supervisory interaction reached a clearly operational level at many meetings, which is a sign of well-established collegial relationships built on trust and mutual understanding.

69. The home authorities were good chairs of the meetings in general and facilitated questions and discussions, while being mindful of the agenda and time constraints.

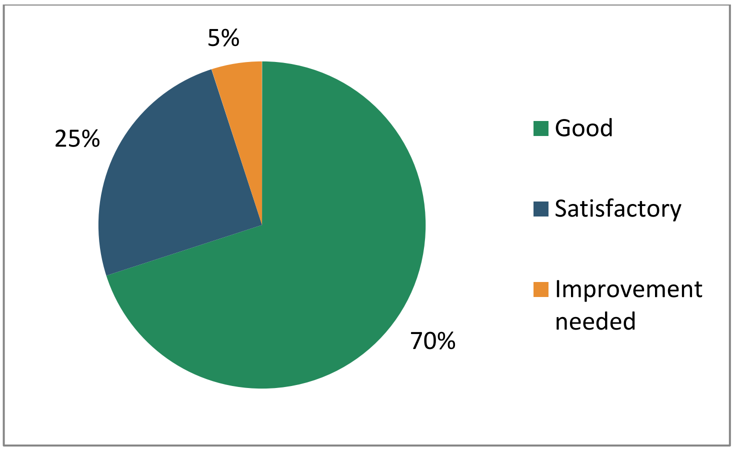
70. The EBA is of the opinion that a certain degree of mutual challenging (in home-host and host-host communication) contributes to more profound risk assessments and helps to achieve (i) mutual understanding of the risk profiles (of both the group and the individual entities) and, subsequently, (ii) agreement on the proposed supervisory measures. EBA staff observed a certain degree of mutual challenging among college members and its positive influence on the building of shared and coherent views.

71. In general, supervisors (both consolidating and host supervisors) were active with the bank representatives and took advantage of the proximity of the bank management to raise questions at the meeting.

3.5.4 Minutes of the meetings

72. In the vast majority of colleges (70%), minutes of college interactions were always carefully prepared and shared with college members for comments. In an increasing number of colleges, the minutes serve also as a reference for further actions agreed at the meeting, which is considered good practice. In five colleges, minutes were either not prepared for all interactions or were prepared but not shared for comments. In one college, minutes have still not been prepared and shared, which was reflected in its 'improvement needed' score.

Figure 6 – Minutes of the meetings

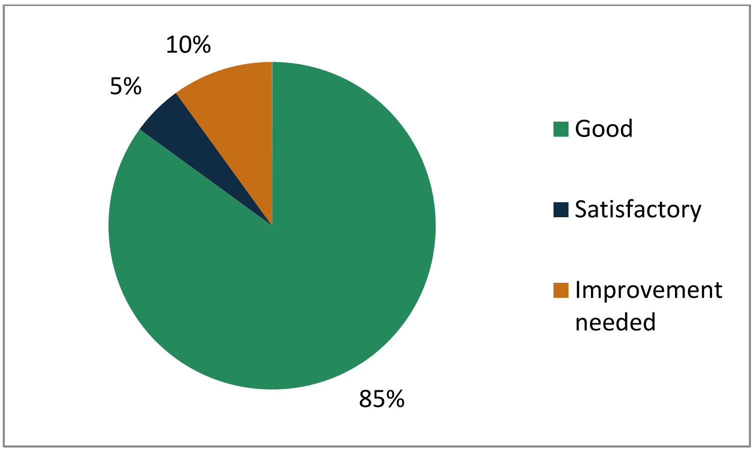


3.6 Responsiveness of colleges

73. EBA staff continued to provide feedback to the consolidating supervisors of the closely monitored colleges in 2016 on a variety of aspects of colleges' functioning. The extent to which each consolidating supervisor followed up on these recommendations and on comments from other college members/observers is reflected in the assessment of the overall responsiveness of the college.

74. The consolidating supervisor maintained a very good level of active interaction with EBA staff in 85% of the colleges throughout 2016, which shows further improvement from the 74% in 2015. In these cases, the home authority was responsive to the EBA and other college members' comments and recommendations, many of which were taken on board. However, EBA staff would welcome improvements in three colleges, particularly in the cooperation of the consolidating supervisor in some areas, given that EBA staff's suggestions and comments (e.g. on the agenda) were not considered or the year-end individual college scorecard (scoring and narrative assessment by assessment category) was not shared with the rest of the college, despite the EBA's expectations.

Figure 7 – Responsiveness of the college



4. Group risk assessments and group liquidity risk assessments

75. This section focuses on the group risk assessments and group liquidity risk assessments for the closely monitored colleges drawn up within the 2016 SREP. It analyses the overall process established for the purpose of preparing the group risk assessments, starting from the planning phase and then analysing the process for developing the risk assessments, and finally takes a close look at the content of risk assessments. The process for developing and finalising both risk assessments and their main elements are specified in the binding Commission Implementing Regulation (EU) No 710/2014. The aim of the analysis is to assess compliance with the existing regulation, the level of convergence in approaches used by the NCAs and the progress made compared with the previous year.

76. The group risk assessment reports are of utmost importance for supervisory authorities and supervisory colleges, as they provide a thorough analysis of the risk faced by the supervised entities, and the conclusions reached feed into joint decisions stipulating the level of capital and liquidity, or any other supervisory measures, that the institutions are required to hold.

4.1 Process

4.1.1 Group risk assessments

(i) Planning process

77. As in previous years, EBA staff closely monitored the planning process. Based on the collected statistics, all of the 20 closely monitored colleges communicated to the college members, including the EBA, the timelines agreed within the supervisory colleges. All in all, the timelines established a clear overview of the steps envisaged for reaching the group risk assessment.

78. Taking into account experiences in both 2015 and 2016, it may be concluded that the planning process has been fully developed and implemented into college practices.

(ii) Process for developing and finalising risk assessment reports

79. The process for developing and finalising the group risk assessment report includes several key steps: (i) using templates from Commission Implementing Regulation (EU) No 710/2014, including all relevant annexes (i.e. Excel files); (ii) sharing individual reports with the college; (iii) timely circulation of risk assessments before the college meetings; and (iv) discussions on the group risk assessment (including the individual assessment as annexes of the group assessment) at the college meetings.

80.Over the last 2 years, the supervisory colleges have got used to the mandatory templates for both the group and the individual risk assessments, including all relevant annexes. On the other hand, EBA staff identified that there were still colleges that did not fully complete all parts of the annexes (Annexes 1 to 4 of Regulation (EU) No 710/2014 and, in particular, Table 2 of Annexes 2 and 4, including the risk-by-risk decomposition of capital), mainly those parts that cover the breakdown of the SREP capital requirements by individual risks.

81.As far as individual risk assessments are concerned, EBA staff identified that they were not fully shared within all colleges prior to the supervisory college meetings. In some cases, individual risk assessments were shared only after the meeting, thus benefiting the colleges to only a minimal extent. Despite some issues with the distribution of draft risk assessments prior to college meetings, the quality of meeting discussions in general further improved compared with 2015.

4.1.2 Group liquidity risk assessment

(i) Planning process

82.The planning process for the group liquidity reports went hand in hand with the planning process for the group risk assessment reports, as both processes are, in general, interrelated and require a high degree of coordination. Moreover, conclusions from the group liquidity risk assessment should feed into the group risk assessment report, which covers all material risks including liquidity risk.

83.Based on the statistics collected by EBA staff, all of the 20 closely monitored colleges communicated to the EBA the timelines agreed by the supervisory colleges.

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

84.The process for developing and finalising the group liquidity risk assessment report mirrored the process for drafting the risk assessment report. Thus, the observations made by EBA staff are identical for both processes.

4.2 Content

85.This section reviews the content of the group risk assessments, its overall quality and the coverage of material risks. Both assessments, i.e. the group risk assessment and the group liquidity risk assessment, are discussed together, as they are interconnected. Moreover, the liquidity risk assessment feeds into the group risk assessment, which aggregates all risks and examines the overall risk profile.

86.EBA staff participated in drafting the risk assessments, with the aim of supporting competent authorities and transferring experiences from other colleges and outcomes from the EBA work regarding the risk review and analysis of the European banking system.

87. EBA staff's analysis showed that the overall quality of the risk assessments was good for most of the colleges. All material risks were covered and their analyses provided a good understanding of risks and their impact on capital and liquidity.

88. However, there are still some challenges that would require further work to be properly reflected in the risk assessments.

89. EBA staff identified that one of the elements that should be further developed is the business model analysis. The analysis assumes that the competent authorities assess business and strategic risks and determine the viability of an institution's current business model on the basis of its ability to generate acceptable return over the next 12 months, as well as the sustainability of strategy over the longer term horizon. In this respect, the analysis should capture the past and current profitability and future challenges, which may have a negative impact on viability and sustainability. EBA staff fully support initiatives introduced by several competent authorities that launched thematic reviews to thoroughly analyse business models. The business model analysis of individual entities will further benefit from the results of these reviews.

90. In accordance with the EBA's yearly assessment methodology, the process of developing the group risk/liquidity risk assessment and the content of the documents are captured in one score assigned to the group risk assessment and to the group liquidity risk assessment.

91. The overall assessment shows that 35% of colleges received a 'good' score and an additional 20% received a 'satisfactory' score for the group risk assessment, while 55% received a 'good' score for the group liquidity risk assessment and an additional 30% received a 'satisfactory' score. Colleges assigned with a 'satisfactory with compliance issue' score had fallen short in completing all of the mandatory annexes of the group risk assessment report as expected by Regulation (EU) No 710/2014 and failed to share and discuss this information in the college. It is clear from Figures 8 and 9 that this was more of an issue for the group risk assessment report than for the group liquidity risk assessment.

Figure 8 – Group risk assessments

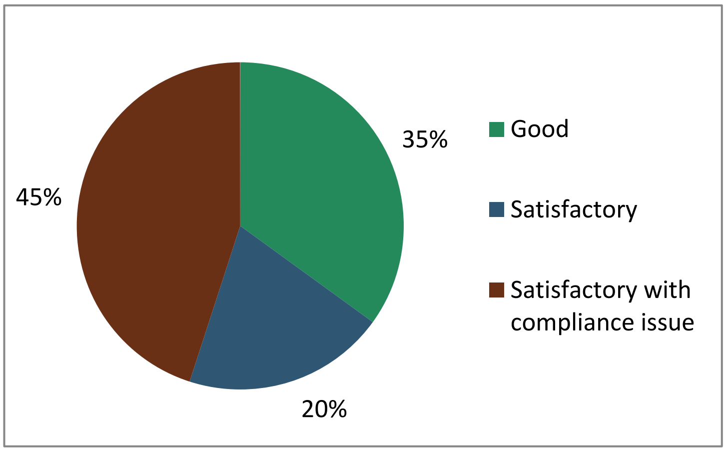
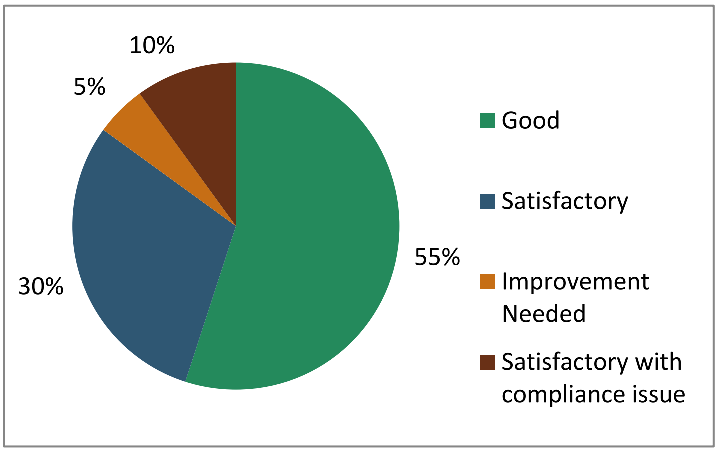


Figure 9 – Group liquidity risk assessments



4.3 Key topics for supervisory attention in 2016

92. Every year, the EBA, as part of its work on risks and vulnerabilities in the European banking system, identifies risks that pose major threats to the EU cross-border banking groups and, thus, represent significant concerns for the EU supervisory authorities. In addition, the EBA, building on its policy work, identifies important policy topics. Consequently, the EBA invites competent authorities supervising the cross-border banking groups to pay particular attention, including by analysing and discussing them at college meetings. For 2016, the following topics were identified.

4.3.1 Key topics linked to the risk faced by EU banks

a. NPLs and balance sheet cleaning

b. Business model sustainability in challenging regulatory and macro-economic environments

c. Operational risk, comprising conduct risk and IT risk.

4.3.2 Key topics linked to specific policy products

a. Implementation of SREP guidelines

b. IRB models – review and cross-border cooperation

c. IFRS 9 impact

d. Remuneration – bonus cap.

4.3.3 Key topics linked to supervisory initiatives

a. EU-wide stress test – home-host cooperation and communication to the market.

93. Figure 10 gives the number of closely monitored colleges that dealt with the topics during the college meeting and discussed them thoroughly.

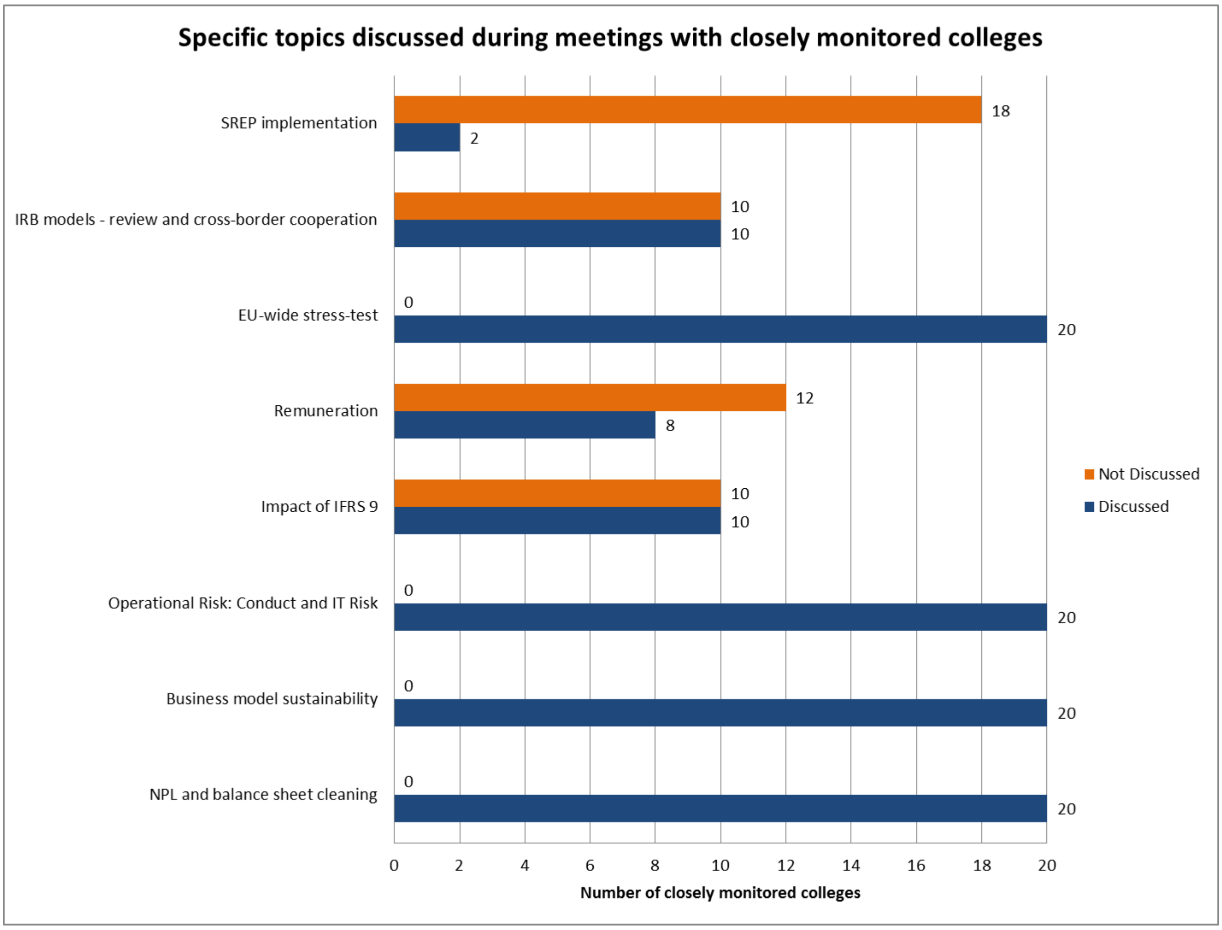
94. All of the closely monitored colleges have put analysis and discussions on NPLs, business model sustainability and operational risk on their colleges' agenda, thus covering all key risk topics. As all of these three topics constitute an integral part of the SREP, the analysis was performed within the development of the group risk assessment.

95. In addition, all of the closely monitored colleges discussed the EU-wide stress test organised by the EBA in 2016.

96. On the other hand, topics related to specific policy products were covered to a considerably lower extent within the college structures. As regards IRB models review, IFRS 9 impact and remunerations, roughly 50% of the closely monitored colleges discussed these topics.

97. The aim of this topic was to ensure that supervisors working on the group risk assessment inform each other about the way that the SREP guidelines had been implemented within their country, so that they better understand the main drivers reflected in the assessments, including the specificities applied. The implementation of the SREP guidelines has been on the agenda of only 10% of the closely monitored colleges. When assessing this rather low coverage, one should bear in mind that the SREP is a very wide topic and its proper and full coverage within one supervisory cycle might be too challenging. Moreover, the involvement of horizontal functions that led the implementation of the SREP guidelines might be needed in some cases. Clearly, this topic should be addressed within the next supervisory cycle.

Figure 10 – Specific topics for supervisory attention



5. Joint decisions on capital and liquidity

5.1 Main conclusions

98. In almost all colleges, a dialogue between the consolidating supervisor and the relevant competent authorities was organised in a multilateral setting to discuss and agree upon the proposed capital and liquidity requirements. While the draft joint decision documents were circulated in colleges prior to the dialogue, material information on the proposed measures was omitted from many documents.

99. A distinct improvement in the process for reaching the capital joint decision is that 75% of colleges secured the final joint decision within the legally applicable timeframe (4 months). Despite the challenging 1-month deadline, 65% of colleges managed to finalise the liquidity joint decision document within this timeframe. Both results are better than in 2015.

100. Overall, the joint decision documents of the closely monitored colleges on capital and liquidity were well reasoned and contained information on and/or references to the conclusions of the SREP as reflected in the group risk/liquidity risk assessment reports. Because in many colleges the mandatory risk-by-risk decomposition of the capital requirement was not shared and discussed in the college setting, some of the joint decisions missed the clear link between the outcome of the risk assessment and the reasoning for setting additional capital requirements (P2R).

101. The articulation of the own funds requirements (P2R) in the 2016 capital joint decision documents have been brought more in line with the SREP guidelines, considering also the exclusion of the CCB. However, details on the actual level of applicable buffers were still missing in at least half of the joint decisions.

102. All in all, the liquidity joint decisions were of a lower quality than the capital joint decisions, mainly because of their less granular reasoning, particularly for the subsidiaries; their lack of consistency in the structure of the annexes; or their weak connection between the reasoning in the liquidity joint decision document and the group liquidity risk assessment.

103. In addition, all authorities have made efforts to provide details on the quality of the P2R in the joint decisions.

5.1.1 Process for the development and finalisation of the joint decisions

104. With the adoption and entering into force of Commission Implementing Regulation (EU) No 710/2014 on the joint decision process for institution-specific

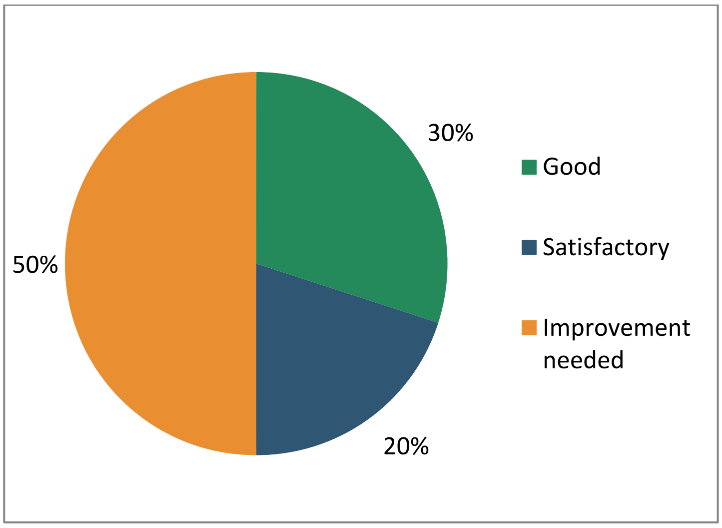
requirements in mid-2014, both the process aspect of reaching joint decisions in the college framework and the expected content of the capital and liquidity joint decision documents have been laid down. Therefore, EBA staff conduct the yearly assessment of closely monitored colleges in view of the requirements set out in Regulation (EU) No 710/2014 and assign scores both to the process aspect of reaching the joint decision and to the content of the documents.

105. In all except two colleges, a dialogue between the consolidating supervisor and the relevant competent authorities was organised in a multilateral setting to discuss and agree upon the proposed capital and liquidity requirements. The submission of the draft joint decision documents from the consolidating supervisor to the other competent authorities and college members prior to these meetings/teleconferences is a precondition for in-depth discussion on the requirement(s) according to Regulation (EU) No 710/2014.

106. Based on EBA staff's observations, in as much as half of the colleges, the draft documents circulated before the discussions did not include proposals for quantitative and qualitative requirements for the group and for some entities within the group.[5] The consequence of this approach was that instead of meaningful and in-depth discussion at meetings/teleconferences, the focus of the interaction shifted purely to noting of quantitative and qualitative requirements by participants. Host authorities and the EBA raised their objections to this approach to the consolidating supervisor in various colleges in order to ensure reciprocity on the timing of sharing proposed quantitative and qualitative measures between college members. All colleges that followed this approach have been assigned an 'improvement needed' score for the process aspect of the joint decision process, as can be seen in Figure 11.

[5] Which would allow a conclusion on the level of own funds that each institution of the group is required to hold at individual level and consolidated level (Article 10(h) and (i) of Regulation (EU) No 710/2014) and a conclusion on measures taken to address any significant matters and material findings relating to liquidity supervision (Article 11(g) of Regulation (EU) No 710/2014).

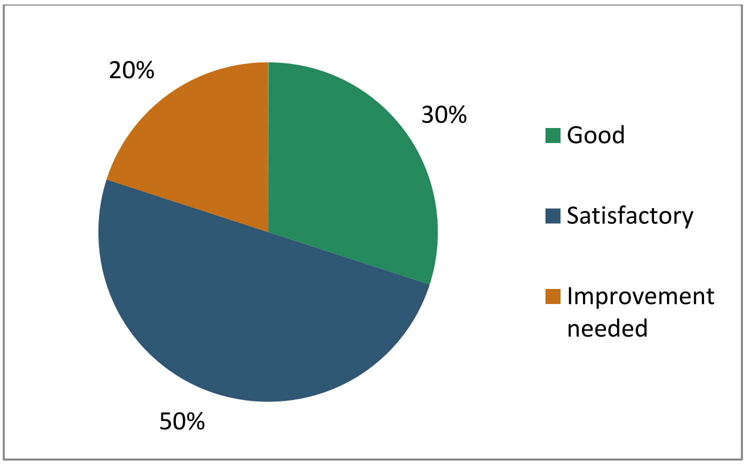
Figure 11 – Joint decision process: capital



107. In two colleges, reaching an agreement on the draft joint decision took the form of email exchanges. To ensure complete understanding of all college members on the proposed requirements and their link to the outcome of the risk assessment, EBA staff encouraged discussions should to be organised in an interactive format.

108. As, in many colleges, there is only one document covering both the capital and the liquidity requirements, the omission of the quantitative and/or qualitative requirements from the circulated draft joint decision document also applied to liquidity measures. However, the portion of the 'improvement needed' score resulting from the liquidity process (20%) is considerably smaller than that resulting from for the capital (50%), as, in a number of colleges, no liquidity requirements have been proposed.

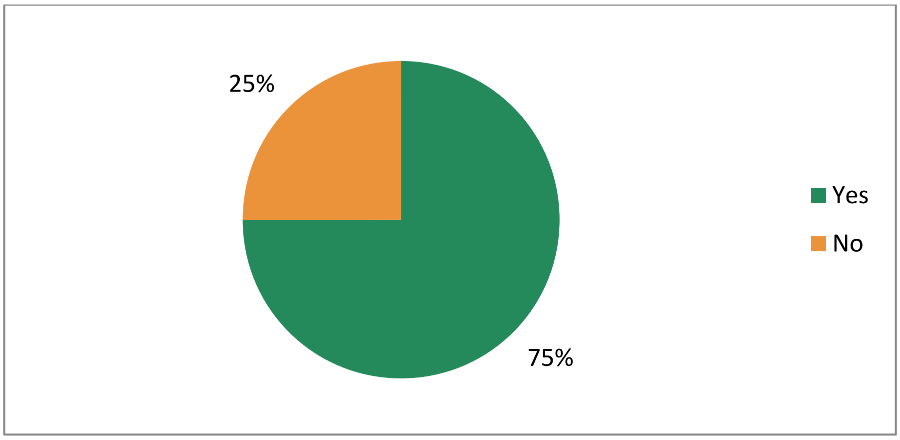
Figure 12 – Joint decision process: liquidity



109. The consultation on the draft joint decisions with the parent entity was transparent in all colleges and comments submitted by the group were shared with all college members. Supervisors worked together in a coordinated manner to evaluate the comments received and to decide on any potential changes to the draft document.

110. A distinct improvement in the process for reaching the capital joint decision is that 75% of colleges secured the final[6] joint decision within the legally applicable timeframe, i.e. within 4 months after the submission of group risk assessment reports by the consolidating supervisor to the other relevant competent authorities. Even the colleges that did not strictly meet the 4-month deadline completed the joint decision process only a little later, within 2 weeks after the expiration of the 4-month deadline.

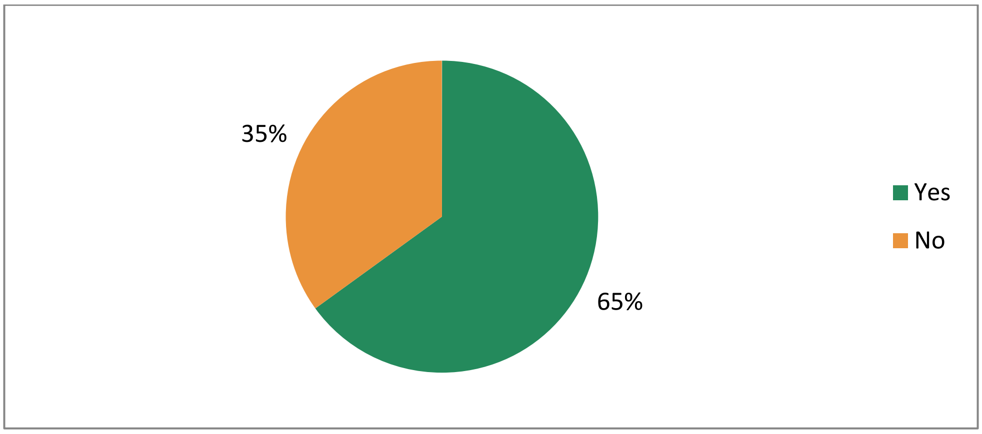
Figure 13 – Compliance with the 4-month requirement: capital



111. In spite of the tight deadline set by the CRD, 65% of colleges managed to finalise the liquidity joint decision within 1 month after the formal submission of group liquidity risk assessment reports by the consolidating supervisor to the other relevant competent authorities. It has to be noted, however, that in many colleges the informal submission of a preliminary version of the draft group liquidity risk assessment report made the alignment of the liquidity joint decision cycle with that of the capital joint decision possible and ensured that college discussions could also cover liquidity risk at college meetings.

[6] The joint decision is deemed to be final when it is evidenced in writing by the representatives of the consolidating supervisor and relevant competent authorities who can commit their authorities.

Figure 14 – Compliance with the 1-month requirement: liquidity

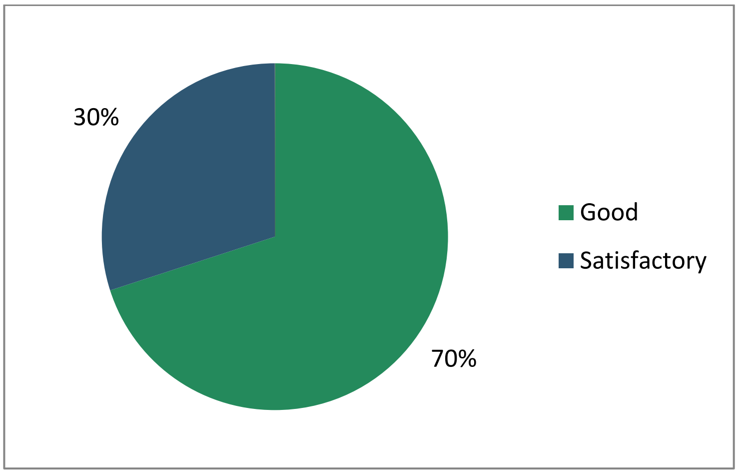


5.1.2 Content of the joint decisions on capital and liquidity

112. Overall, the joint decision documents of the closely monitored colleges on capital and liquidity were well reasoned and contained information on and/or references to the conclusions of the SREP as reflected in the group risk/liquidity risk assessment reports.

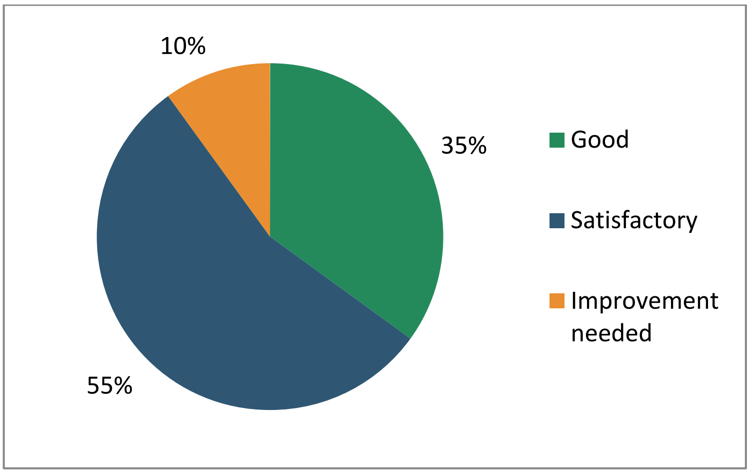
113. When comparing the 2016 results with those of 2015 for the capital joint decisions, the development is clearly identifiable. Only 22% of colleges were assigned a ‘good’ score in 2015, compared with 70% in 2016. As much as 61% of colleges received a ‘satisfactory’ score last year, while in 2016 only 30%.

Figure 15 – Assessment of the content of the joint decision document: capital



114. Similarly, the content of the liquidity joint decision documents was also enhanced in 2016, although the overall assessment is less favourable than that of the capital joint decision documents, which is mainly due to the generally less granular reasoning of the capital joint decision documents.

Figure 16 – Assessment of the content of the joint decision document: liquidity



115. Details of the assessment are provided below.

(i) Scope of the joint decision documents and coverage of entities

116. Information on entities for which no additional requirements are imposed[7] was limited or absent in some cases, with no references to the conclusions of the SREP outcome and/or no information on the recommendations to which the entity is subject to in some countries. Most importantly, the joint decision covering these entities should be supported by appropriate reasoning linked to the supervisory assessment.

117. The mismatch in terms of coverage of entities in some joint decisions, i.e. joint decisions covered institutions of the group for which no SREP reports or liquidity risk assessment reports were developed on a solo basis, is still a valid finding for 2016; however, there have been fewer occurrences of such mismatches than in 2015.

118. One of the outstanding issues is that the group at the consolidated level and the parent at the solo level are not covered separately in many joint decisions as required by Regulation (EU) No 710/2014, if parent waiver does not apply.

(ii) Reasoning supporting capital joint decisions

119. The decomposition of the proposed SREP capital requirement by risk type is an integral part of the group risk assessment and a vital link between the risk assessment and the joint decision, and it should inform the reasoning of the joint decision. The risk-by-risk decomposition of the proposed capital add-ons at the group level and each subsidiary level practically explains the supervisors' view on the risks that are not covered, or not fully covered by Pillar 1, and strengthens the reasoning supporting the prudential requirements as a result of the capital joint decision. As, in many colleges, this information was not

[7] Entities for which there is also no waiver in place.

shared and discussed in the college setting, as explained in the group risk assessment section, some of the joint decisions missed the clear link between the outcome of the risk assessment and the reasoning for setting additional capital requirements (P2R).

120. Despite this shortcoming, supervisors made considerable efforts to improve the granularity of information underpinning the required level of capital.

(i) Formulation of additional capital requirements

121. The improvements in the joint decision document on the articulation of the own funds requirements (P2R) were much welcomed, with the TSCR being clearly noted along with its breakdown to regulatory minimum (Pillar 1) and Pillar 2 elements. In addition, all authorities have made efforts to provide details on the quality of the P2R in the joint decisions.

(ii) Combined buffers and capital planning requirements

122. Issues with the inclusion of the CCB in the TSCR observed last year have been cleared in the joint decisions reached in the course of 2016, as the CCB has been kept outside the TSCR and was included as an element of the overall capital requirements (OCR) in all cases. However, details on the actual level of applicable buffers were still missing in at least half of the joint decisions.

123. The application of the P2G came into practice in the course of 2016 as a non-binding supervisory tool to deal with forward-looking concerns regarding the capital planning of an institution revealed by supervisory stress tests. Nevertheless, information on the P2G, if applicable, is expected to be included in the joint decision as a memoranda item according to Article 11(1)(h) of Regulation (EU) No 710/2014, as 'information on any other relevant prudential or macro-prudential requirements, guidelines, recommendations or warnings' should be set out in the joint decision. EBA staff noted that this was not ensured in the majority of colleges or was not applied consistently, meaning that information on the P2G was included in the joint decision for some subsidiaries, but not for the others for which the P2G was also proposed.

124. Apart from the quantitative requirements, EBA staff observed that an increasing number of capital joint decisions included further qualitative requirements than in previous years, which is a welcome development in the sense that supervisors were willing to put more emphasis on issues identified in the group risk assessment process by incorporating the expected actions in the joint decision document itself.

125. These qualitative measures have sometimes been labelled as actions jointly requested by the consolidating supervisor and the other competent authorities, which would have required the discussion of the proposed qualitative requirements in the college and the subsequent agreement, similarly to the own funds requirement set out in Article 104(1)(a) of the CRD, which was not ensured in some colleges. A consistent approach would be for

proposed qualitative requirements of the capital joint decision to also be discussed and agreed in the college.

(iii) Other memoranda items

126. Information on the currently available own funds at the consolidated and individual levels to be included in the joint decision is not only a requirement of Article 10 of Regulation (EU) No 710/2014, but also a very practical and important piece of information to college members to consider when discussing the required level of own funds to be set for the institution. While last year the majority of joint decisions lacked this information, for the first time the majority of documents covered these numbers in 2016.

(iv) Findings on liquidity joint decisions

127. One important finding is that the link between the reasoning in the liquidity joint decision document and the group liquidity risk assessment report is weak for some colleges.

128. In addition, many joint decisions would have benefited from more granular reasoning for the subsidiaries. The level of information in the annexes of the joint decision document covering the liquidity adequacy assessment varies among entities, with some of them being regarded as too high level and failing to make appropriate references to the conclusions of the group liquidity risk assessment report and its annexes.

129. The consistency in the structure of the document for the subsidiaries was not always ensured, as the quantitative liquidity requirements for some subsidiaries were not included under the ‘prudential requirements’ section, while those for others were included.

130. The conclusions on the liquidity adequacy have been drawn both at the consolidated level and for the subsidiaries, but, in some cases, while these conclusions are very detailed and contain much information for the group assessment, for some entities they were regarded as too high level, without appropriate references to the conclusions of the supervisory assessment.

131. Finally, if no specific liquidity requirements were imposed, this conclusion should have been specifically mentioned in the text of the joint decision as foreseen by Regulation (EU) No 710/2014, which was not always ensured.

6. Joint decisions on the assessment of group recovery plans and other EBA work in this area

133. Since the implementation of the new recovery and resolution framework under the BRRD, 2016 has been the second year in which supervisory colleges have been required to assess group recovery plans for cross-border banking groups and reach relevant joint decisions in accordance with Article 8 of the BRRD.

134. In 2016, all of the group recovery plans of the 20 closely monitored colleges were submitted. Of these 20 plans, two were revised versions of the 2015 recovery plans, which had been requested on the basis of material deficiencies. The formal joint decision process for 2016 has been initiated for almost all of the submitted plans. A substantial challenge for a number of supervisory colleges remains the treatment of pre-existing individual recovery plans (which, in many cases, had been requested before the BRRD entered into force) and the appropriate coverage of individual entities in the group recovery plans.

6.1 Main observations and challenges

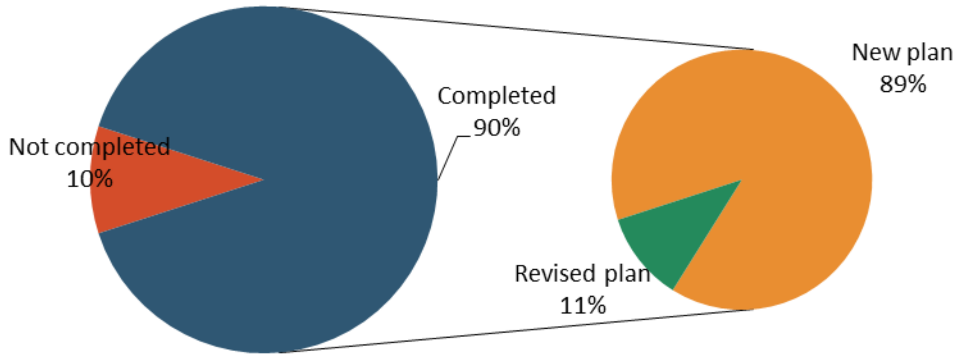
6.1.1 Key statistics

135. In 2016, all of the group recovery plans of the 20 closely monitored supervisory colleges were submitted by banking groups for supervisory review. This compares with just over 80% of the group recovery plans of the closely monitored colleges submitted in 2015.

136. The year 2016 has also seen an improvement in the initiation of joint decision processes. While in the previous year some delay was observed as a result of late BRRD implementation, all but one[8] of the 20 closely monitored colleges initiated their joint decision process in 2016. At the time of writing the 2015 report, only two joint decisions had been completed for 2015. During the course of 2016, the other 18 closely monitored colleges have managed to complete their recovery plan joint decision process for 2015.

[8] Because of a merger.

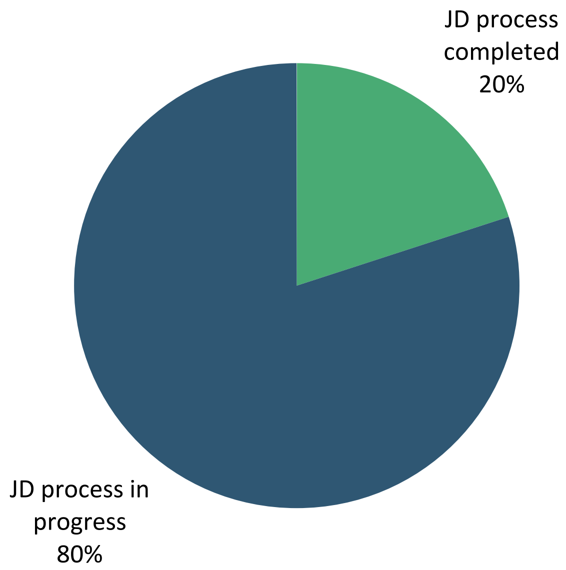
Figure 17 – 2015 joint decisions completed and their outcomes



137. The majority of the 2016 recovery plans were submitted in the second half of the year, which means that, by the end of 2016, many joint decision processes were still at a relatively early stage. As a matter of fact, the majority of the joint decision processes completed during the course of 2016 were either associated with group recovery plans submitted in 2015 or related to the two revised and resubmitted plans, following the detection of material deficiencies. On the other hand, for four colleges, the date of submission of the plan was set earlier in the year, so that joint decisions on the 2016 plans were already completed at the end of the year.

138. For some of the supervisory colleges (five) of those banking groups, for which the submission deadline of the group recovery plan had been in Q3 of 2016, the timeline for reaching the joint decision has not been devised, discussed or agreed, as it is envisaged in the SSH module on the supervisory assessment of recovery plans or it has been done with considerable delay. Considering the issues of the joint decision process in various colleges in the course of 2015 (early 2016), in particular the challenges of ensuring agreement within the legally available timeframe, setting joint decision timelines binding all affected college participants is vital.

Figure 18 – 2016 joint decision process: progress to date



6.1.2 Appropriate coverage of entities and requests for individual recovery plans

139. Within the BRRD framework, recovery planning on an individual basis applies only to stand-alone institutions, i.e. entities not belonging to groups. For group entities, recovery plans shall be developed for the group as a whole.[9] According to Article 8(2) of the BRRD, a joint decision between the consolidating supervisor and the competent authorities of subsidiaries shall be reached on 'whether a recovery plan on an individual basis shall be drawn up for institutions that are part of the group'. Thus, the option to have an individual recovery plan for a group entity is not excluded by the BRRD, but it should be the outcome of a joint decision.

140. When the BRRD entered into force at the beginning of 2015, some Member States had already implemented provisions at the national level, requiring some banks under their jurisdiction to submit recovery plans on an individual basis, regardless of whether such institutions were part of cross-border banking groups or not. During 2015, a number of supervisory colleges were therefore faced with pre-existing individual recovery plans, or with requests from host national authorities for individual plans for subsidiaries of cross-border banking groups, which were made outside the joint decision process established in the BRRD.

[9] See Articles 5, 6, 7 and 8 of the BRRD for information on the development and assessment of individual and group recovery plans.

141. In this respect, 2016 has again been a year of transition and it is not yet possible to draw a clear conclusion on the integration of individual entities into the group recovery plans. However, the assessment of group recovery plans in 2015 has revealed that one of the most common shortcomings was the lack of adequate information on individual entities.

142. To this extent, three main issues have been identified from the EBA's thematic reviews of recovery plans[10] and observations from its regular attendance in several supervisory colleges.

143. First, the vast majority of group plans were written predominantly from the parent perspective, with little emphasis on other entities in the group. Focusing only on the Union parent undertaking clearly limits the credibility and the effectiveness of the group recovery plan, undermining the overarching aim of identifying measures that may be required to be implemented at the level of the parent undertaking and each individual subsidiary.

144. Second, as mentioned above, some competent authorities have historically requested individual plans from subsidiaries of cross-border groups in their jurisdiction, and therefore could have detailed information on recovery arrangements. Relying on the group plans – especially if they provide little focus on the local subsidiaries – and at the same time giving up the individual plans they had previously received pre-BRRD clearly leaves a gap in their understanding of the recovery procedures and measures of the institutions they supervise. While the lack of such information in and of itself should be seen more as a deficiency of the group plan than as a justification to request individual plans, there have been instances where competent authorities have requested individual subsidiary plans owing to a lack of information or adequate coverage in the group plan.

145. Third, there has been a lack of consistency in applying the legal framework when taking joint decisions on recovery plans. In practice, these decisions should consider:

a. the level of information that should be included in a group plan to meet colleges' expectations of appropriate coverage;

b. the depth and extent of coverage for each individual subsidiary; it is noted that the BRRD (Article 7(1)) provides that 'the group recovery plan shall identify measures that may be required to be implemented at the level of the parent undertaking and each individual subsidiary'.

146. For some banking groups, individual plans had been requested on a temporary basis in 2015 until sufficient coverage by the group plan is achieved. This implies that some group and individual recovery plans continue to exist, but the next year should bring a lot more integration and alignment across banking groups.

[10] See Comparative report on the approach to determining critical functions and core business lines in recovery plans (March 2015), Comparative report on the approach taken on recovery plan scenarios (December 2015) and Comparative report on governance arrangements and recovery indicators (July 2016).

7. Level and quality of interaction organised within the college framework for colleges monitored on a thematic or selected basis

147. In 2016, the EBA for the first time sent out self-assessment templates to the colleges monitored on a thematic or selected basis, with the aim of extending the coverage of supervisory colleges and gaining a better understanding of the functioning and procedures of this group of colleges.

148. Of the 56 colleges monitored on a thematic or selected basis, only 38 colleges returned their self-assessment templates in 2016. Of these 38 self-assessment templates, around 20% were not duly completed, with no answers being provided for many questions. Therefore, while analysis of the templates is very interesting and can be done to obtain more details for this particular college group, it needs to be noted that the statistics may not be fully representative for the whole group of 56 colleges monitored on a thematic or selected basis, as the statistics are mainly based on a sub-sample of 30 colleges.

149. The key findings identified for the group of colleges monitored on a thematic or selected basis in 2016 were the following:

   a. While further effort is expected from these colleges to ensure the finalisation of the WCCAs in all colleges, college SEPs were established in the vast majority of them.

   b. Physical college meetings have not yet been fully introduced into the college interactions, as a substantial number of colleges (almost one-third) held no physical meetings in 2016.

   c. The level and type of interaction during the meetings varies, with less than half of the responding colleges reporting multilateral discussions.

   d. Of the 38 colleges that returned their self-assessment, 24 reported substantial discussion on both the group risk/liquidity risk assessment and the proposed capital and liquidity joint decisions. In a small number of colleges, either the risk-by-risk capital calculation (a mandatory annex of the group risk assessment) was not shared following central guidance or the group risk assessment was not provided at all, although discussions were held in these cases.

   e. The majority of colleges completed the joint decision process and reached the final joint decision within the legally applicable timeframe, i.e. 4 months for the capital joint decision and 1 month for the liquidity joint decision; however, a high proportion of colleges did not provide answers (21% for capital and 32% for liquidity), which distorts the picture.

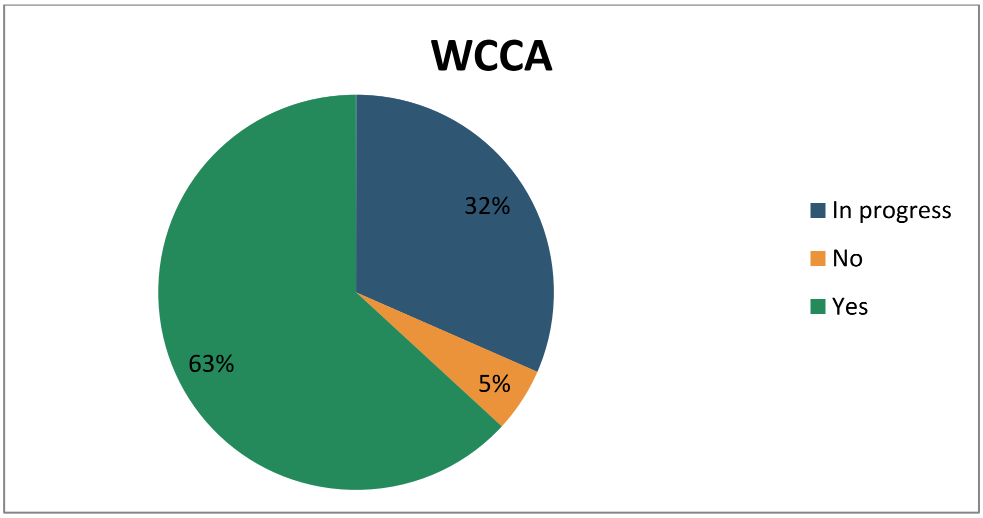
f. No form of disagreement between college members on the capital and liquidity joint decisions was indicated in the self-assessment templates, although in cases where EBA staff became aware of any potential issues the EBA proactively liaised with the consolidating supervisor and participated in the college meetings in the course of 2016.

g. There is still room for improvement in the assessment and procedures of group recovery plans; only around half of the 38 colleges reported timely completion of the assessment period or that the assessment was in progress.

7.1 Organisational aspects

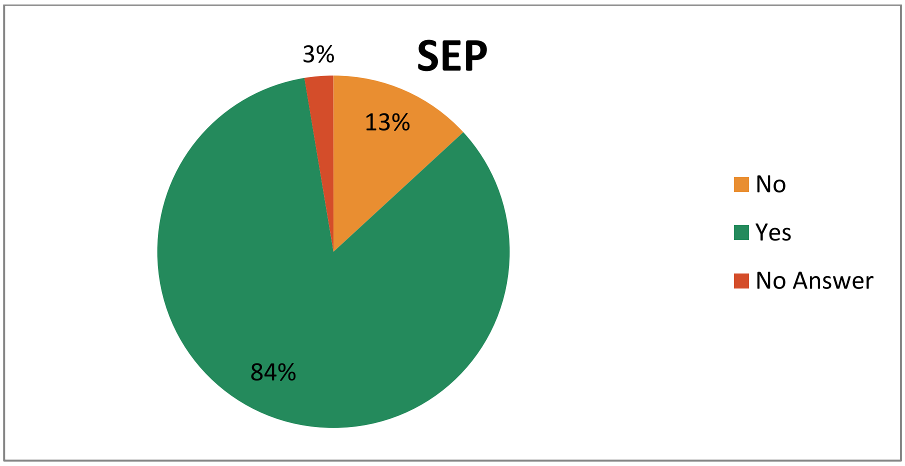
150. Considering that Commission Delegated Regulation (EU) No 2016/98 on the functioning of supervisory colleges came into force in October 2015, more colleges would have been expected to have completed WCCAs by the end 2016 than the 63% turned out from the self-assessment templates. Therefore, EBA staff will provide further guidance to this group of colleges in 2017 to support the finalisation of the WCCAs.

Figure 19 – Written coordination and cooperation arrangements



151. An overwhelming majority of thematic colleges (84%) compiled a specific college SEP, which proves that the coordination among college members with regard to planned activities is well established. The five colleges that reported that no SEP had been formally established for 2016 referred to simple group/college structure (only two members) or to the low relevance of the group in the banking system.

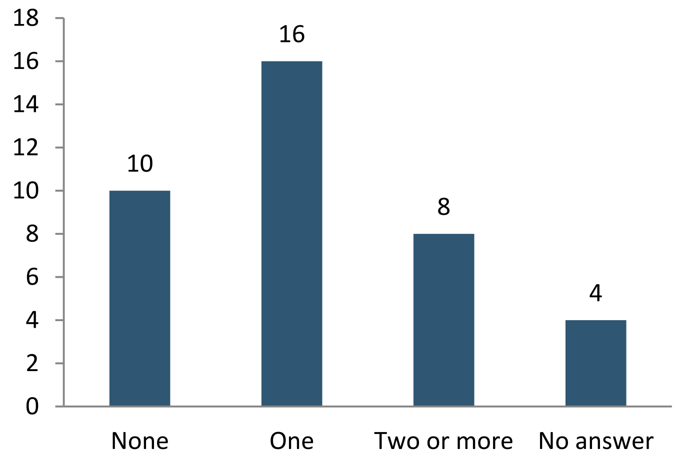
Figure 20 – College supervisory examination programme



7.2 College meetings and preparatory coordination

152. Of the sample of 38 colleges monitored on a thematic or selected basis that submitted their self-assessment templates, the majority (42%) held one meeting in 2016. More than a quarter (10) did not hold a physical college meeting at all until November 2016 (Figure 21). The EBA attended 13 physical meetings and 17 conference calls organised by the thematic colleges in the course of 2016.

Figure 21 – Number of physical college meetings in 2016[11]

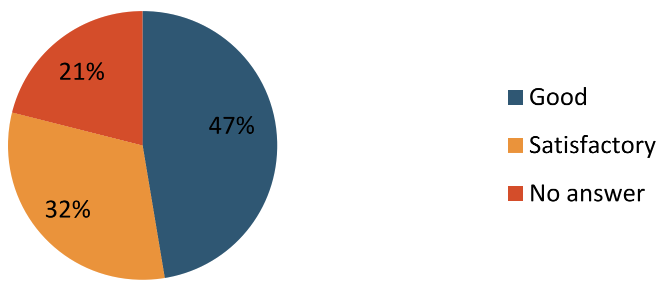


[11] Please note that, in the following sections on other aspects of the college meetings, the statistics add up to different numbers of physical meetings held. This is the result of some colleges having held no physical meetings at the time of the submission of the self-assessment templates, and therefore the quality of college meetings reported refers to meetings held in 2015, while other colleges have reported the quality of telephone conferences held instead of physical college meetings.

7.3 Quality of college meetings

153. In terms of the quality of the actual college meetings, the vast majority of the 38 colleges indicated that there had been a discussion at the college meeting. However, the quality of interaction varied. Almost half of the 38 colleges stated that the quality and depth of the discussion at the college meetings had been perceived as good.

Figure 22 – Quality and depth of discussion at college meetings



154. While 17 colleges indicated that discussions were either multilateral or partly multilateral, in 10 colleges discussions were only bilateral and in three colleges the discussion that took place was mainly driven by the consolidating supervisor. Importantly, almost three-quarters of the 38 colleges stated that the different authorities challenged each other's contributions at least to some degree. Only two colleges indicated that they did not raise any queries about each other's contributions at all.

Figure 23 – College meeting discussion

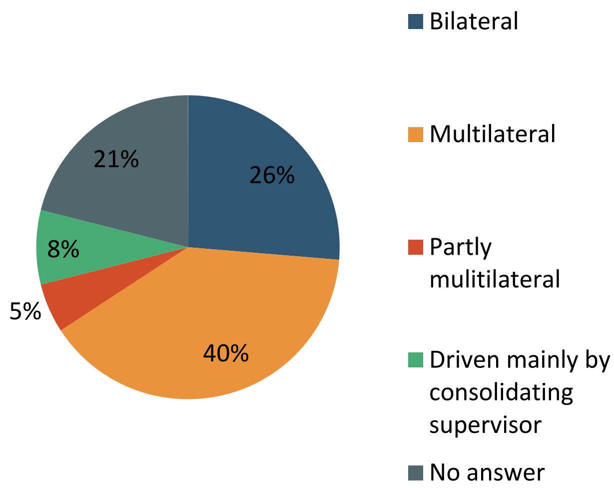
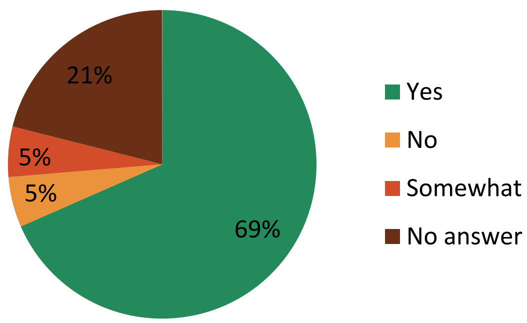


Figure 24 – Queries by different authorities on each other's contribution



155. Attendance of the groups' representatives at the college meetings to present specific topics was mixed. Only 60% of respondents reported that representatives of the banking groups attended the college meeting.

156. Minutes of the college meetings were not circulated in quite a few cases, with less than two-thirds of the sample indicating that minutes of the meeting were shared. For over 30% of the colleges that circulated minutes, college members did not have an opportunity to comment on them.

7.4 Group risk/liquidity risk assessment and joint decision process

157. Draft group risk and liquidity risk assessment reports have been prepared in line with the binding templates provided in Commission Implementing Regulation (EU) No 710/2014 and shared (including contributions from the relevant competent authorities as annexes) in 61% of the respondent colleges, using all relevant annexes (Annex III and Annex IV, Table 1 and Table 2 for capital). In a small number of colleges, either the risk-by-risk capital calculation (a mandatory annex of the group risk assessment) was not shared following central guidance or the group risk assessment was not provided at all.

158. A dialogue between the consolidating supervisor and the relevant competent authorities is expected on the draft group risk assessment report in the process of reaching a common conclusion on the capital adequacy and on the proposed capital requirements as per Regulation (EU) No 710/2014. The majority of colleges (24 colleges – 63% of the respondents) held discussions on both the risk profile and the proposed supervisory

measures. In 8% of colleges, information on the risk assessment was shared via written procedures.

Figure 25 – Discussion on the risk assessment

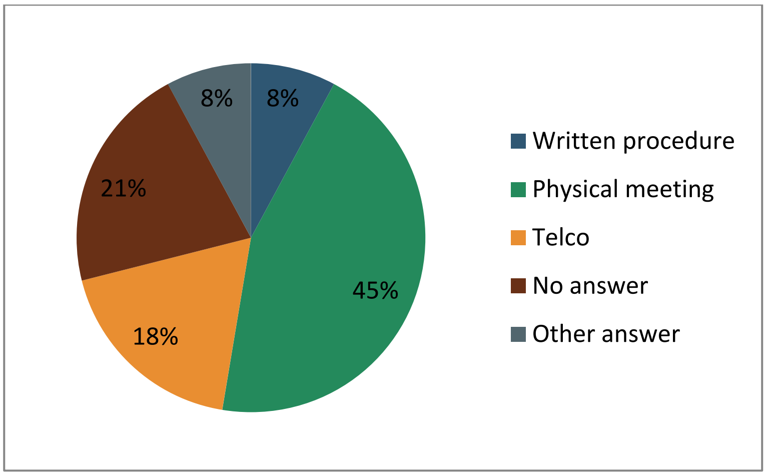
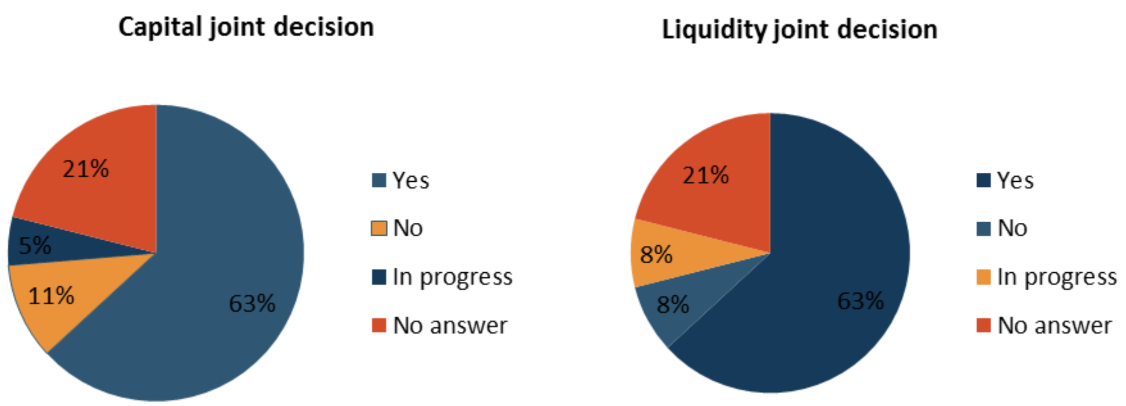


Figure 26 – Sufficient dialogue between competent authorities



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159. The proportion of colleges that held a substantial discussion on the liquidity risk assessment and liquidity joint decision is the same (63%) as the proportion that held a substantial discussion on the risk assessment and capital joint decision.

160. The majority of colleges completed the joint decision process and reached the final joint decision within 4 months after the distribution of the final risk assessment report. Regarding the liquidity joint decision, again the majority indicated that the joint decision was reached within 1 month from the circulation of the final group risk assessment. However, the replies suggest that some colleges lacked a clear understanding of which action actually triggers the legally binding timeframe for reaching the joint decision.

161. No form of disagreement between college members on the capital and liquidity joint decisions was indicated in the self-assessment templates, although in cases when EBA staff became aware of any potential issues the EBA proactively liaised with the consolidating supervisor and participated in the college meetings in the course of 2016.

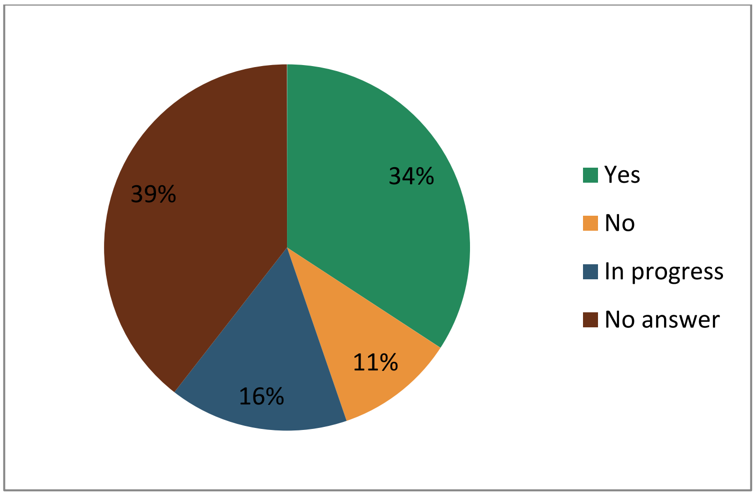
7.5 Joint decision on recovery plans

162. While for the closely monitored colleges substantial progress has been observed in 2016 regarding the recovery plan assessment procedure, this seems to be one of the areas of college work with room for improvement for the colleges monitored on a thematic or selected basis.

163. For less than one-third of the 38 colleges that provided their self-assessment templates, the consolidating supervisor circulated the group recovery plan and preliminary assessment in a timely manner (which should be at least 2 months after the receipt of the group recovery plan by the banking group). Furthermore, completion of the assessment of the group recovery plan within the envisaged 6-month timeframe was achieved in only 13 out of the 38 reporting colleges.

164. Four colleges of the sample reported insufficient dialogue between the relevant competent authorities, while only around half of the 38 reporting colleges indicated that the dialogue was sufficient or in progress.

Figure 27 – Sufficient dialogue between the relevant competent authorities



165. With regard to individual recovery plans, again the completeness of replies was limited; 16 colleges did not provide an answer to this question of if individual recovery plans were in place. For the remainder, the majority did not request individual recovery plans; only 4 of the 38 colleges did.

166. Material deficiencies were identified in six of the colleges during the assessment of the group recovery plans.

Figure 28 – Joint decisions on the request for individual recovery plans

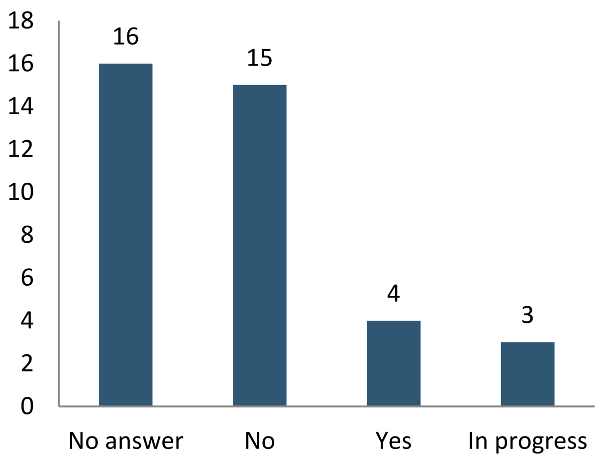
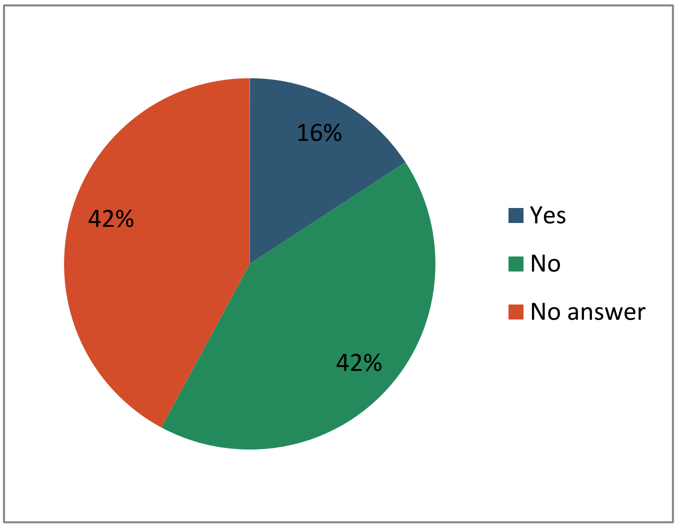


Figure 29 – Material deficiencies identified



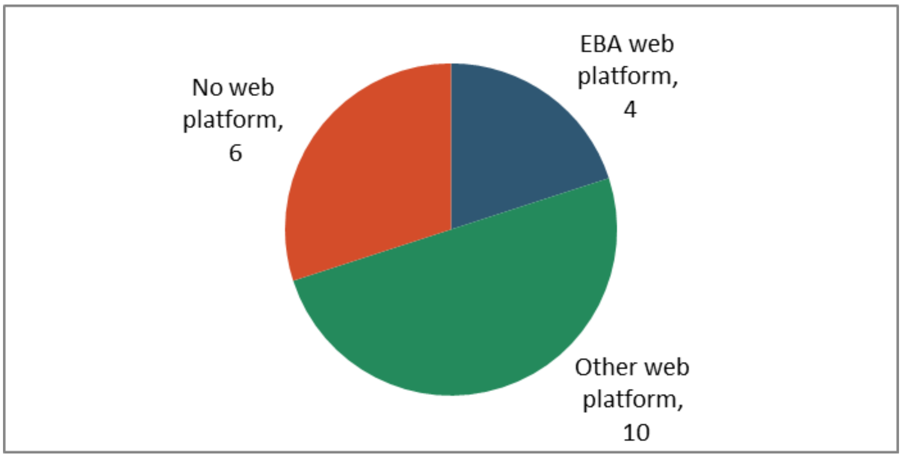
8. EBA tools facilitating the functioning of colleges and training

8.1 EBA tools facilitating colleges' functioning

8.1.1 EBA IT collaboration tool

167. Competent authorities of 14 of the closely monitored colleges are using a secure IT platform as a means of communicating with other college members and transmitting confidential information, although only four have used the EBA IT collaboration tool (a SharePoint tool) on a regular basis.

Figure 30 – Use of a secure web platform



168. The EBA sees potential risks in the practice of the six colleges, managed and organised by two consolidating supervisors, that do not use any secure IT platform to share confidential information, especially in view of heightened information security risks.

169. EBA staff continued promoting the SharePoint tool in the course of 2016, which offers colleges a secure way of exchanging confidential information through its two-factor authentication system and which is readily available for colleges to join. One closely monitored college decided to join the EBA IT collaboration tool in December 2016, so that college will be provided training and support by EBA staff in 2017.

170. The EBA IT collaboration tool will be upgraded in the course of 2017 to ensure that the IT tool provides users, in particular the staff of NCAs, with all the functionalities they need in a user-friendly manner. Proposals for improvement from both NCA and EBA staff were collected in 2016.

8.1.2 Quarterly EBA Colleges Newsletter

171. Three issues of the EBA Colleges Newsletter were published in the course of 2016 (Q1, Q3 and Q4) and distributed not only to closely monitored colleges, but also to colleges followed on a thematic or selected basis.

172. The EBA launched the Colleges Newsletter in Q1 of 2014 with the aim of sharing useful information on a regular basis with supervisors participating in or working with supervisory colleges in the following broad areas:

   a) regulatory developments and their influence on college activities;

   b) upcoming actions for the EBA Colleges Action Plan; and

   c) summary of risk analysis developments relevant to colleges.

173. After 2 years since the publication of the first issue, the EBA launched a short survey in March 2016 to gather supervisors' feedback and tailor the content further to supervisory interests. An overwhelming 97% of the respondents considered the EBA Colleges Newsletter as an innovative publication that offers *new* information to supervisors on a regular basis. The topics and individual articles included in the newsletter were seen by a significant majority of supervisors (again 97%) as important and relevant themes in their daily work with colleges. EBA staff will continue working on the publication in 2017 and will utilise the outcome of the survey.

8.2 EBA staff support and guidance

174. The EBA is tasked with contributing to, promoting and monitoring the efficient, effective and consistent functioning of supervisory colleges across the EU, including the consistent application of European Union law. Therefore, EBA staff provide continuous support and guidance to colleges throughout the entire joint decision cycle and with more operational tasks, outlined below.

8.2.1 Organisational aspects of college work

175. To support the application of the regulatory framework, EBA staff engaged with competent authorities in the following ways:

a) EBA staff provided guidance and clarification on the performance of the mapping of the entities of EU cross-border banking groups. Discussions were also organised with some consolidating supervisors on a bilateral basis in an effort to underline the importance of all aspects of this exercise for the setting up of the college and the organisation of college tasks.

b) EBA staff actively liaised with consolidating supervisors on the involvement of third-country supervisory authorities in the colleges' work, in particular by providing information on the general cooperation framework and on more detailed processes to be followed when identifying the members and observers of colleges, also relying on the EBA’s work on assessing the equivalence of the confidentiality regimes of third-country authorities.

c) Having access to a large number of WCCAs allowed EBA staff to share experiences and some observed good practices, addressing some of the practical arrangements of WCCAs.

8.2.2 College meetings

176. In preparation for and during college meetings, EBA staff were actively contributing to achieving the main objectives of these meetings, mainly via:

a) providing comments on and topic suggestions for the agenda, to make sure that all relevant items were covered and the meeting structure allowed for both presentations and discussions;

b) announcing the EBA Colleges Action Plan each year, with key topics referred for particular supervisory attention;

c) actively engaging in discussions at meetings and facilitating and promoting college members’ involvement;

d) contributing to the discussions on group risk assessment by presenting the institution-specific risk dashboard (the EBA’s Micro Risk Dashboard);

e) identifying potential issues among college members on various topics and proactively intervening by initiating trilateral/multilateral discussions; and

f) contributing to observations/suggestions at college meetings on specific topics and providing feedback to the consolidating supervisor after the meeting.

177. The active participation of EBA staff during college meetings and the proximity of EBA staff, enabling them to exchange views on the practical implementation of the Level 1 and Level 2 text with supervisors, was highly valued and perceived as a positive contribution to successful college meetings.

8.2.3 Group risk assessment and joint decisions

178. EBA staff closely cooperated with consolidating supervisors and other college members while preparing, discussing and finalising the group risk/liquidity risk assessments and the capital and liquidity joint decisions. In addition to the ongoing interactions with the closely monitored colleges, EBA staff:

a) provided guidance on the application of the technical standards that relate to the process for developing and finalising the risk assessment (planning process, timetables, dialogue between authorities, individual and group assessments, circulation of documents, etc.);

b) assisted in using binding templates, which are an integral part of the risk assessment, including by guiding authorities on specific elements (e.g. annexes with risk-by-risk capital requirements);

c) provided feedback on group risk/liquidity risk assessment documents for all of the closely monitored colleges;

d) provided comments and drafting suggestions on draft joint decisions developed by the 20 closely monitored colleges;

e) provided feedback (e.g. in the form of letters, conference calls and bilateral meetings) and alerted supervisors to concerns on compliance with the Single Rulebook;

f) issued a note to supervisors, as informal guidance, for setting and using the P2G based on the outcomes of supervisory stress tests under the current SREP framework – the note, which was discussed by the Board of Supervisors in December 2016, also provides an approach to communicating the P2G to banks in 2017.

8.2.4 Recovery planning

179. EBA staff continued to provide support to the recovery planning activities carried out in supervisory colleges in 2016, mainly through the following contributions:

a) EBA staff facilitated the discussions on recovery planning in supervisory colleges by presenting the outcomes of a new thematic comparative report on recovery planning across the EU. The new report, published in July 2016, focuses on governance arrangements and recovery indicators.[12]

b) EBA staff again contributed to the assessment of group recovery plans in 2016 by providing comments to individual colleges on the aspect of the coverage of individual entities in the group recovery plans.

c) EBA staff contributed to two dedicated meetings between home and host competent authorities in 2016, aimed mainly at finding a common, shared and sustainable solution on the coverage of entities in group recovery plans going forward.

d) EBA guidance continued to be requested by competent authorities in several instances on ad hoc issues involving mainly the appropriate calibration of recovery indicators and early

[12] See 'Comparative report on governance arrangements and recovery indicators': http://www.eba.europa.eu/documents/10180/1360107/EBA+BS+2016+Comparative+report+on+RP+governance+and+indicators_July+2016.pdf

warning indicators and the relationship with the SREP joint decision (for capital indicators), the issue of adequate coverage of entities in group recovery plans and possible requests for individual recovery plans outside the joint decision process (see above), and the appropriate approach to address material deficiencies in the assessment process.

e) In 2016, the SSH and the EBA non-binding templates for the assessment and joint decision on recovery plans have been widely used and have helped supervisors navigate through the different parts of the recovery plan.

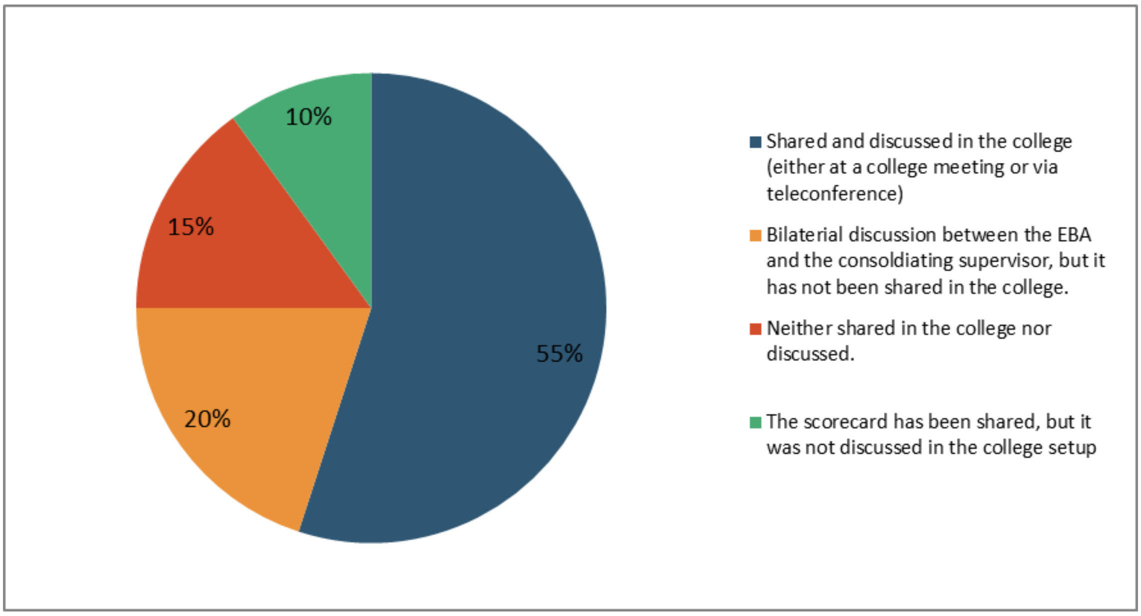
8.2.5 Colleges’ yearly assessment and individual college scorecards

180. The year-end college assessment, which is an additional form of feedback, ensures a higher quality of monitoring and more extensive communication and interaction between EBA staff and consolidating supervisors. The assessment is conducted every year in view of (i) existing technical standards and regulations and (ii) the EBA’s expectations on college interaction (as communicated to home supervisors).

181. As part of this approach, a scorecard with detailed explanation is provided to the consolidating supervisor of each individual closely monitored college to acknowledge achievements in the college work and to support competent authorities in identifying areas for improvement.

182. The EBA promoted the sharing of the assessment in the college framework in order for the host supervisors to be equally informed. EBA staff explained the individual assessments in 11 colleges in the first half of 2016, as supervisors in these colleges were keen to understand the results and to take steps towards further improving the functioning of the college. In other cases, the consolidating supervisor favoured only a bilateral discussion with EBA staff on the results (four colleges) and made efforts in building the lessons learnt into their day-to-day activities of managing the college.

Figure 31 – Information on how colleges approached the EBA's 2015 yearly assessment



183. Improvement is expected in the three colleges in which the scorecard was not shared by the consolidating supervisor or discussed.

8.2.6 Training

184. The EBA organised numerous training sessions for supervisors in 2016 on the joint risk assessment and joint decisions process in colleges, then on the assessment and joint decision of recovery plans. Several training sessions on the SREP were also run.

185. In February 2016, the EBA launched its first online training module on recovery planning. In Q3, an additional module on the SREP was introduced.

9. Concluding remarks and next steps

186. Supervisory colleges have completed the second cycle of college activities, which included joint decisions on capital, liquidity and group recovery plans. Both the competent authorities and the EBA have invested a lot of resources and effort into the work of colleges with the aim of safeguarding the stability of the EU cross-border banking groups headquartered within the EU.

187. The supervision of cross-border banking groups via colleges has become firmly embedded in the supervisory toolkit and serves as a tool for information exchange and a tool and platform for reaching common agreement regarding the requirements on capital, liquidity and recovery planning. The colleges have again made significant progress in performing their tasks and duties. On the other hand, there are still challenges to be addressed, including keeping pace with new initiatives in the financial industry in areas such as financial technologies and innovations.

188. The EBA has a continuous role to play in improving the functioning of the internal market by ensuring an effective and consistent level of prudential regulation and supervision, to which supervisory colleges are integral. In this context, the EBA will continue to work closely with the competent authorities, guiding them with tools such as the Colleges Action Plan, individual college feedback and targeted training.

189. As in every year, based on the experiences gained in 2016, the EBA has drawn up the Colleges Action Plan for 2017, which is presented in Annex I of this report.

190. Annex II presents the EBA’s approach to college monitoring in 2017.

Annex I – 2017 EBA Colleges Action Plan

1.1 Introduction

1. The EBA is tasked with contributing to, promoting and monitoring the efficient, effective and consistent functioning of supervisory colleges across the EU. Supervisory colleges play an important role in the effective supervision of cross-border groups and have been a vital forum for the coordination of supervisory activities, sharing information and reaching joint decisions.

2. On an annual basis, the EBA establishes an action plan for supervisory colleges, which provides the authorities responsible for supervising cross-border institutions with a set of objectives and deliverables in line with the Level 1 and Level 2 provisions. The annual EBA Colleges Action Plan also sets out the approach to be followed and the tasks to be undertaken by EBA staff in supporting and monitoring colleges within the EBA's statutory mandate.

3. During the development of the 2017 Colleges Action Plan, the EBA considered the findings from the monitoring of college activities in 2016. The Colleges Action Plan also benefits from the EBA's work on risks and vulnerabilities and from regulatory developments with cross-border implications, both of which serve as inputs for the key topics for supervisory attention. The 2017 Colleges Action Plan outlines:

   a) the key tasks for supervisory colleges;

   b) the key topics for supervisory attention in 2017;

   c) the EBA's approach for monitoring colleges.

1.2 Key tasks for supervisory colleges

4. Supervisory colleges should continue to improve the general cooperation and convergence in 2017, ensuring that all tasks required by the relevant legal framework are performed. Supervisors are expected to organise their efforts and resources to maintain and manage the operational aspects of college work. Furthermore, supervisors are required to perform a number of joint activities, which stem from legal requirements and which have already been included in the colleges' annual tasks for some years now, aiming to enhance the supervision of the cross-border groups. In this context, the main tasks arising for supervisory colleges in 2017 include:

   a) updating the mapping of cross-border group entities with all of the relevant information envisaged in the template of Annex I of the RTS on supervisory colleges;

   b) considering expanding the list of authorities with observer status in light of the outcome of the EBA's work on equivalence assessment of professional secrecy provisions of non-EU supervisory authorities, following the process envisaged in the Level 1 and Level 2 provisions;

c) maintaining and developing further the WCCAs (e.g. elaborating on details of collaboration and interaction with resolution colleges, defining risk indicators to be exchanged in the college framework);

d) organising physical meetings and maintaining ongoing interaction in other forms (e.g. conference calls, emails, consultations in written format);

e) adopting an annual college SEP, noting joint and individual supervisory activities, resources committed from college members, and the timing and duration of these activities;

f) organising and establishing timelines for joint decisions envisaged by the CRD and the BRRD;

g) developing and finalising the group risk assessment and group liquidity risk assessment;

h) reaching joint decisions on capital and liquidity;

i) reaching a joint decision on the assessment of the group recovery plans, measures to address impediments to these plans and the need for individual recovery plans covering entities of the group; and

j) organising and concluding other joint decisions as required by the regulatory framework of the CRD/BRRD (e.g. approving the use of internal models or the determination of a liquidity sub-group).

1.3 Key topics for supervisory attention in 2017

5. The EBA's work on risks and vulnerabilities in the European banking system aims to identify the main forward-looking view on risks that are of concern to the regulatory and supervisory community. Based on the outcome of this work and on the outcome of other relevant policy work, competent authorities supervising cross-border banking groups under the colleges framework should pay particular attention in 2017 to the key topics outlined below.

1.4 Key topics linked to risks faced by EU banks

a) **NPLs and balance sheet cleaning** – Asset quality remains a concern and supervisory authorities are requested to continue to focus on ongoing balance sheet cleaning and NPL reduction for legacy portfolios, in particular as regards the differences in coverage of NPLs in different jurisdictions. Furthermore, the improvements in asset quality will heavily depend on successfully tackling the impediments of NPL resolution. In addition, the quality and composition of growing new loan portfolios should be an area of attention in view of banks' risk appetite and potential credit standard loosening.

b) **Business model sustainability** – Supervisory authorities are requested to pay particular attention to the sustainability of banks' business models. Banks are faced with a number of external factors: a challenging regulatory and macro-economic environment with protracted low interest rates, potential asset bubbles and increased competition from new non-bank market participants challenging the sustainability of their business models. In addition, a number of internal factors can affect the sustainability of banks' business models, such as the impact of cost-cutting measures on internal control functions and the impact of funding structure changes. In their business model analyses, supervisors should also pay attention to the link between the business model and internal governance set-up, including the remuneration framework.

c) **Operational risk – conduct risk and IT risk**

i. **Conduct risk** – Costs related to conduct and litigation risks are still affecting the profitability of European banks and more charges are expected in 2017. In addition to these potentially substantial costs, lengthy litigation processes add to uncertainties among consumers and banks affecting current market sentiment for EU banks. It is therefore important that conduct risk remains incorporated in the 2017 supervisory activities.

ii. **IT risk** – In connection to IT risk, supervisory authorities are requested to pay particular attention to the risks related to cybercrime and information security risk, concerns about connectivity and outsourcing to third-party providers, and out-dated technology environments. In addition, technological innovation in the financial sector (FinTech) is picking up pace. FinTech provides both challenges and opportunities for the banking sector and remains an area of attention for supervisors.[13]

1.5 Key topics linked to specific policy products

6. **Comparability of RWAs and the use of EBA benchmarks in SREP assessments –** The review of internal models is an important supervisory initiative that is part of the ongoing work on revising the risk-based capital framework at the international level. The aim is to reduce the excessive variability in RWAs under internal models. As part of the broader work to address risks in models, the EBA will assist competent authorities in their assessment of the outcome of banks' internal models, as well as monitor any material differences in RWAs by providing EU-wide benchmarks. In 2017, the EBA will perform a benchmarking exercise and subsequently issue a report on credit and market risk. Cross-border supervisory communication and cooperation in this respect will be required in the area of the review of internal models and agreement among relevant competent authorities on timelines for

[13] Please also refer to the EBA's 'Report on Material and Emerging IT risks', which addresses the main IT risks for NCAs to consider in their supervisory work. The report is available on the EBA's extranet (https://www.eba.europa.eu/group/extranet/supervisory-convergence/it-risk).

implementation of required changes proposed by institutions (including joint decisions between relevant competent authorities where required).

Annex II – The EBA's approach to college monitoring in 2017

1.1 Continuation of existing tasks

1. In 2017, EBA staff will continue to support and monitor college functioning, and assist colleges in applying EBA technical standards and guidelines and other relevant parts of the Single Rulebook. Training is an important component in achieving a common supervisory culture and supervisory convergence in practice. The EBA will further extend its training programme for supervisors, with a significant part of training devoted to the supervisory review process, the assessment of recovery plans and cross-border cooperation among supervisory colleges. As it was well received by competent authorities, the organisation of tailor-made training and events to respond to specific demands of competent authorities will be continued in 2017.

2. EBA staff intend to continue issuing the EBA Colleges Newsletter on a regular basis to provide home and host supervisors with updates on EBA policy work related to supervisory cooperation, as well as relevant risk analysis and planned workshops or training. While the newsletter is distributed to a wide audience of home and host supervisors, it is particularly useful for the consolidating supervisory authorities of the colleges that are not in close individual contact with EBA staff.

3. In 2016, the EBA issued its third recommendation on the equivalence of the confidentiality regimes, with 34 authorities from 16 non-EU countries now being assessed as equivalent. The recommendation should assist competent authorities in arriving at a common conclusion when identifying third-country authorities in view of their participation in EU supervisory colleges, and in using this as a common reference in the WCCAs. In 2017, the EBA will assess the confidentiality regimes of a number of third-country authorities that are important for EU supervisory banking groups to update the recommendation.

1.2 Continuation of existing initiatives

4. EBA staff will continue to use a more individualised approach to college monitoring, which the EBA adopted last year. With the legal framework for the functioning of supervisory colleges completed, colleges now need to follow the supervisory cycle and the requirements of the Level 1 and Level 2 texts. Therefore, EBA staff will continue to monitor the college deliverables on a bilateral basis with the relevant competent authorities. In that respect, no common deadlines are included in this Colleges Action Plan. Instead, EBA staff will monitor colleges' deliverables on a college-per-college basis in view of the supervisory cycle, the Level 1 and Level 2 requirements and the deadlines and targets put forward by the consolidating supervisors for their colleges.

5. EBA staff intend to continue to enhance the existing tools offered to colleges, including those related to the EBA's risk assessment work, and offer more tailor-made products to individual colleges in 2017.

6. In 2016, the EBA organised for the first time a series of bilateral visits and engagements with competent authorities to address a number of issues with individual competent authorities in a proactive way at the horizontal level. In 2017, the EBA will organise a further series of bilateral visits. The objective of the bilateral visits is to promote consistent supervisory practices and a common supervisory culture within the European Union. During these visits, EBA staff also engage with line supervisors responsible for organising and contributing to college-related tasks in both consolidating and host supervisor roles. The experience showed that this is a good way to reach out to the host supervisors and identify particular issues they are faced with in their college-related work. This enables EBA staff to better understand the individual approach of different competent authorities and identify potential needs for additional EBA support. The 2017 bilateral visits will consist of a follow up of the 2016 visits and will focus on two topics: (i) business model analysis and the use of the outcomes of such analysis (including potential measures) and (ii) the use of the P2R and the P2G.

7. In 2016, EBA staff introduced self-assessments for selected colleges and activities. This allowed for a broader coverage of colleges in the assessment and presented the opportunity for both home and host supervisors to provide their feedback on college functioning. As the experience has shown that such broader outreach is very useful, the EBA will continue to use the self-assessments for those colleges that are identified as 'thematic or other colleges'.