

EUROPEAN BANKING AUTHORITY

EXECUTIVE SUMMARY
OF THE ANNUAL REPORT 2016

EBA

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AUTHORITY

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EXECUTIVE SUMMARY

OF THE ANNUAL REPORT 2016

Achievements in 2016

Playing a central role in the development and maintenance of the Single Rulebook for banking

In 2016, the Single Rulebook applicable to the European Union (EU) banking sector was largely completed. The European Banking Authority (EBA) continued to engage actively at the EU and international levels to support the finalisation of the 'Basel III package' and the completion of the implementation of the Basel package in the EU. The year was also a period for reflection on the regulatory reforms that immediately followed the financial crisis, to understand better the effects of the reforms on bank structures, business models and risk-taking, and the need to minimise complexity where possible. The EBA also continued to enhance its monitoring of different aspects of the Single Rulebook, including on own funds, remuneration practices and significant risk transfers in securitisations.

EBA key deliverables in 2016

In August 2016, the EBA reported to the Commission on a number of aspects related to the **leverage ratio (LR)**, in line with its mandate laid down in the Capital Requirements Regulation (CRR). One of the key questions addressed by the report is the Pillar 1 migration of the LR and its minimum level, namely with regard to business models and risk profiles. The analysis, carried out in close cooperation

with competent authorities (CAs), suggests that the potential impact of introducing an LR requirement of 3% on the provision of financing by credit institutions would be relatively moderate, while overall it should lead to more stable credit institutions.

In September 2016, the EBA published a report on a descriptive analysis of the **core funding ratio (CFR)** across the EU. The report highlighted a lack of correlation between the CFR and the **net stable funding ratio (NSFR)** for the whole sample used and also by business model and size bucket. Overall, the report concluded that it would be misleading to rely only on the CFR to assess banks' funding needs because, unlike the NSFR, the CFR does not look at the whole balance sheet of a bank and, therefore, cannot fully assess a potential funding gap.

In October 2016, the EBA and the European Securities and Markets Authority (ESMA) launched a joint consultation on guidelines on the assessment of suitability of members of the management body and key function holders, and the EBA issued a consultation to revise its guidelines on **internal governance**. Both guidelines put more emphasis on the duties and responsibilities of the management body and on its responsibility when appointing members of the management body to ensure they have the reputation, knowledge, experience and skills necessary to safeguard a proper and prudent management of the institution.



The EBA continued its work on the enhancement of the **comparability of capital requirements**, as part of the broad review of the Internal Ratings Based (IRB) approach started in the previous year. The use of internal models is an important element to improve risk-sensitiveness when measuring capital requirements. In February, the EBA issued a roadmap for the implementation of the **regulatory review of internal models**, consisting of four phases according to the following priorities: assessment methodology; definition of default; risk parameters; and credit risk mitigation (CRM). The last phase will be finalised by the end of 2017 and the implementation of the changes in the institutions' models and processes should be finalised by the end of 2020 at the latest, as outlined in a separate EBA opinion.

The EBA continued to work on risk parameters and the consistency of **risk-weighted assets (RWAs)** in the EU banking sector through the development of annual supervisory benchmarking exercises for credit and market risk. The 2016 exercise covered credit risk for small and medium-sized enterprises (SMEs), other corporate and residential mortgage (the so-called high-default portfolios) and market risk portfolios. The EBA published two reports at the beginning of 2017.



In November 2016, the EBA published its final draft Regulatory Technical Standards (RTS) that specify the conditions under which competent authorities (CAs) assess the significance of positions included in the scope of **market risk internal models**, as well as the methodology they shall apply when assessing an institution's compliance with the requirements to use an Internal Model Approach (IMA) for market risk. Regarding market infrastructure, the three European Supervisory Authorities (ESAs) published in March 2016 the final draft RTS outlining the European Market Infrastructure Regulation (EMIR) margining framework for non-centrally cleared over-the-counter (OTC) derivative transactions, which was adopted in October 2016 by the European Commission.

In December 2015, EBA recommended to develop a new, more risk-sensitive prudential framework for **investment firms**, taking into account the objectives of preserving financial stability, protecting investors and ensuring failures are managed in an orderly fashion. In June 2016, the EBA launched a consultation in response to the European Commission's call for technical advice on the design of a new prudential regime for investment firms. The approach presented in the discussion paper aimed to better capture the risks for investment firms that are not deemed to be systemic and bank-like, and recommended a single, harmonised set of requirements that are reasonably simple, proportionate and more relevant to the risks that investment firms pose to customers and markets.

Following the launch of the first EBA impact assessment of **International Financial Reporting Standards (IFRS) 9**, that gathered results from of approximately 50 banks in the EU, the EBA published in November 2016, a report that included qualitative and quantitative observations. This report was the first EU initiative launched to get a clearer picture of the institutions' arrangements regarding the IFRS 9 implementation. It highlighted that, as of December 2015, banks were still in the early stages of preparation. A second impact assessment on a similar sample of banks was launched at the end of November 2016.

Following the public consultation on the initial proposals, the EBA issued in November 2016 the final guidelines on the **communication between competent authorities** supervising credit institutions and the statutory auditors of credit institutions. The guidelines are effective from 31 March 2017. Effective communi-

cation between the CAs and auditors should contribute to fostering financial stability, and the safety and soundness of the banking system, by facilitating the task of supervision of credit institutions.

The EBA continued to contribute to the successful implementation of the Capital Market Union reform by issuing final guidelines on implicit support for **securitisation transactions** in October 2016 and publishing a report in December 2016, with recommendations on how to harmonise the **covered bond** framework in the EU. The objective of these guidelines is to clarify what constitutes arm's length conditions and to specify when a transaction is not structured to provide support for securitisations.

The EBA supported the Commission in the preparation of its legislative proposal to amend the rules on **capital requirements** and the resolution framework, which was issued on 23 November 2016. The purpose of the latest proposals is to implement the most recent international regulatory reforms such as those arising from the Fundamental Review of the Trading Book (FRTB) or the total loss absorption capacity (TLAC) requirement in EU law. In particular, the proposal covers market risk, counterparty credit risk (CCR), the LR, the NSFR and elements of the Bank Recovery and Resolution Directive (BRRD).

Developing resolution policy and promoting common approaches to the resolution of failing financial institutions

After a relatively slow start in 2015, when only a small number of **resolution colleges** were held, activity accelerated in 2016. EBA staff attended resolution colleges for 25 major EU banking groups during the year. Where those institutions were global systemically important institutions (G-SIIs), EBA staff also attended the meetings held for such institutions. The focus of attention for the EBA during the year was on the efficient, effective and consistent functioning of the colleges.

The regulatory products developed by the EBA in 2016 cover a wide range of resolution matters. The EBA undertook substantial work in the area of the **minimum requirement for own funds and eligible liabilities (MREL)**. In addition to the reports on the design and implementation of MREL, the EBA developed and launched a public consultation on the im-



plementing technical standards (ITS) on how resolution authorities should report MREL decisions to the EBA.

The EBA has also issued guidelines on confidentiality aimed at promoting the convergence of supervisory and resolution practices on the disclosure of confidential information collected for the purposes of the BRRD. The EBA has also initiated the review and transformation of its Guidelines on the application of **simplified obligations** into the RTS, with a view to further harmonising supervisory and resolution practices with respect to the methodology and criteria for the application of simplified obligations.

Following the entry into force of the new Deposit Guarantee Schemes Directive (DGSD) in July 2015, the EBA further helped to develop the rules for strengthening the resilience of **deposit guarantee schemes (DGSs)** and improving depositors' access to compensation, including in cross-border bank failures. In 2016, the EBA published its own-initiative Guidelines on cooperation agreements between DGSs as well as Guidelines on stress tests of DGSs.

In October 2016, the EBA published a report on the reference point for the target level of national **resolution-financing arrangements**. The report recommended that measures based on total liabilities, and 'total liabilities excluding own funds less covered deposits' in particular, are the most appropriate target-level basis for resolution-financing arrangements (instead of the current reference basis of covered deposits).

Promoting convergence of supervisory practices and ensuring their consistent implementation across the EU

Own funds has been the first area where the EBA has developed a monitoring function, after having finalised a large lot of technical standards quite early after the adoption of the CRR. In terms of CET1 capital, the EBA regularly publishes a list of instruments that EU banks have included in their CET1 capital. In terms of AT1 capital, the EBA has now a long-standing experience in assessing the regulatory terms and conditions of EU issuances. A report presenting the results of this monitoring and including the best practices observed so far as well as clauses that should be avoided is regularly published. In October, the EBA also published some standardised templates for AT1 issuances.

Following the recommendations of the **Credit Valuation Adjustment (CVA)** report published in February 2015 and in order to partially address the risks generated by EU exemptions, in 2016, the EBA developed a coordinated approach for monitoring the impact of transactions exempted from the CVA risk charge on an annual basis.

The EBA is also continuously monitoring the development of **remuneration** practices and trends. In line with the Capital Requirements Directive IV (CRD IV), the EBA annually collects data on staff who have received a total remuneration of EUR 1 million or more in the previous financial year (high earners). In addition,

detailed information is also collected in particular on the remuneration of identified staff from over 100 groups and institutions. Both data collections aim to ensure a high level of transparency regarding the remuneration practices across the European Union.

The EBA published a report in November 2016 to respond to a letter from the European Commission requesting further information on the EBA's Opinion on the application of the **principle of proportionality** to the remuneration provisions in Directive 2013/36/EU. The report provides an overview of the applicable framework regarding the principle of proportionality in each Member State showing a huge diversity in regulatory frameworks and supervisory practices.

The effective functioning of the single market requires enhanced **convergence of supervisory practices** of the CAs in all Member States. The EBA continued to monitor the practical application of the Single Rulebook by CAs, mainly focusing on the consistency of outcomes from the supervisory reviews. Likewise, the EBA kept engaging with colleges of supervisors by promoting the consistent application of Level 1 and Level 2 text, particularly for the application of joint decisions on capital, liquidity and recovery plans, and by drawing supervisory attention to key risks and themes such as non-performing loans, conduct issues and remuneration practices. In addition, the EBA continued to assess the progress made in ensuring consistency of supervisory reviews, evaluations and supervisory measures in Member States.

Figure 1: Promotion of convergence



The EBA is tasked with contributing to, promoting and monitoring the efficient, effective and consistent **functioning of colleges of supervisors** across the EU. The Colleges Action Plan for 2016 considered the findings from the monitoring of supervisory colleges in 2015, incorporated relevant requirements based on regulatory developments and benefited from the EBA's risk analysis work as well. The EBA public report on the functioning of supervisory colleges in 2016 concluded that, overall, the level and quality of engagements in supervisory colleges have been further improved in the course of 2016, in particular the quality and depth of the discussions.

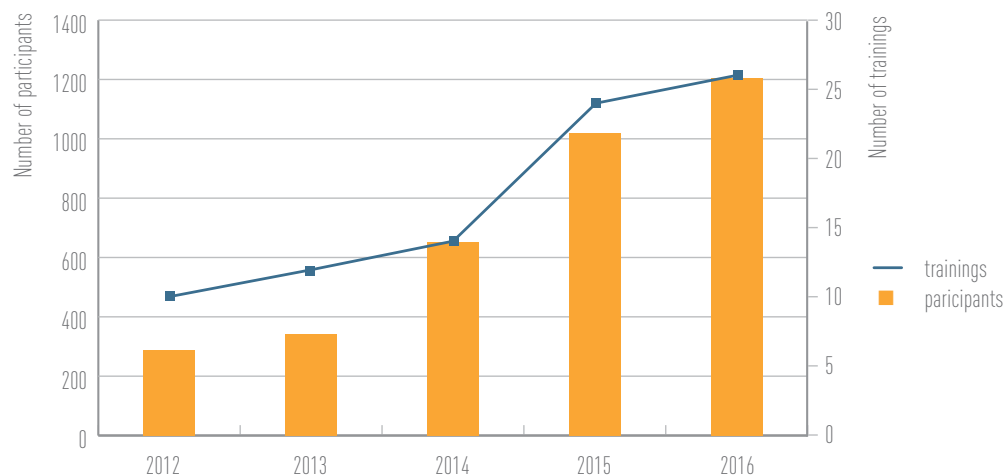
Regarding the development of methodologies for the **supervisory review** and evaluation process, the EBA conducted the following tasks in 2016:

- The publication of the EBA Opinion on the **maximum distributable amount (MDA)** in December 2015 provided clarity to supervisors, banks and market participants for the supervisory review process conducted in 2016. The opinion aimed to clarify the provisions of Article 141 of the CRD which limit the distribution of interim and year-end profits in case of breaches of the combined buffer requirement.
- The EBA introduced the concept of the **Pillar 2 Capital Guidance (P2G)** in July 2016 in connection with the EU-wide stress test and explained how additional 'capital guidance' can be used as a tool to address the quantitative outcomes of the stress test.
- The EBA published in November a set of Guidelines on information related to **Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP)** that CAs should collect from institutions for Supervisory Review and Evaluation Process (SREP) purposes. These Guidelines facilitated the consistent supervisory assessment of internal risk assessment models developed by banks, the reliability of ICAAP and ILAAP capital and liquidity estimates, their use in the assessment of institutions' capital and liquidity adequacy, and the determination of additional own funds and liquidity requirements.



- The growing importance and increasing complexity of **information and communication technology (ICT) risk** within the banking industry and in individual institutions led the EBA to develop its own-initiative draft guidelines addressed to competent authorities to promote common procedures and methodologies for the assessment of ICT risk. The consultation paper was published in October 2016.
- **Interest rate risk in the banking book (IRRBB)** is an important financial risk for credit institutions, which has traditionally been considered under the supervisory review process. In order to communicate expectations regarding the management of IRRBB, in 2015 the EBA published guidelines on the management of IRRBB, which were updated in April 2016.

In 2016, the EBA staff continued to provide support to the **recovery-planning activities** carried out in colleges of supervisors, contributing to the assessment of group recovery plans, especially on the aspect of the coverage of individual entities in the group recovery plans, and facilitating the discussions on recovery planning during supervisory colleges. In July, a comparative report on the governance arrangement and recovery indicators was published, based on the analysis of 26 plans of large European cross-border banking groups.

Figure 2: Increase in number of training programmes and participants from 2012 to 2016

In order to facilitate the consistent participation of third-country supervisory authorities in supervisory colleges, and improve cross-border cooperation, the EBA assessed the **equivalence of the confidentiality** regimes of a number of non-EU supervisory authorities. The assessment resulted in a positive evaluation for six non-EU supervisory authorities from four countries, allowing the participation of these authorities in EEA supervisory colleges.

The EBA's **training programmes** for EU competent authorities are a key instrument to promote supervisory convergence. In 2016, the EBA organised 26 training courses, of which 18 were sectoral, four online, two cross-sectoral and two on soft skills.

Monitoring key risks in the banking sector across Europe

The EBA plays an important role in monitoring and assessing market developments, as well as identifying trends, potential risks and vulnerabilities across the EU banking system.

In 2016, the EBA continued to produce a regular **Risk Assessment Report (RAR)**. The RAR describes the main developments and trends that have affected the EU banking sector during the year and provides the EBA's outlook on the main microprudential risks and vulner-

abilities for the future. In 2016, the RAR was, for the first time, complemented with the EU-wide transparency exercise.

The EBA conducted an **EU-wide transparency exercise** during the second half of 2016. This exercise is part of its work to promote market discipline and foster consistency in banks' disclosures, which the EBA has been carrying out since 2011, either linked to concurrent stress tests or as stand-alone exercises. The exercise comprised 131 banks, from 24 EU Member States and Norway, and was published on 2 December 2016 in parallel with the RAR. The EBA published on its website an extensive collection of bank-by-bank data that was in line with past exercises.

The **Risk Dashboard** is another important product in the EBA's regular risk assessment toolkit. It summarises the main risks and vulnerabilities in the banking sector by means of the development of a set of risk indicators. It was published on a quarterly basis in 2016.

The **Risk Assessment Questionnaire (RAQ)** is a semi-annual exercise, conducted among banks and market analysts, providing a deeper understanding of the market participants' views and outlook on challenges ahead. With the first-time publication of a booklet covering the whole set of the results in June and December, the EBA expanded its set of risk assessments provided to the general public.

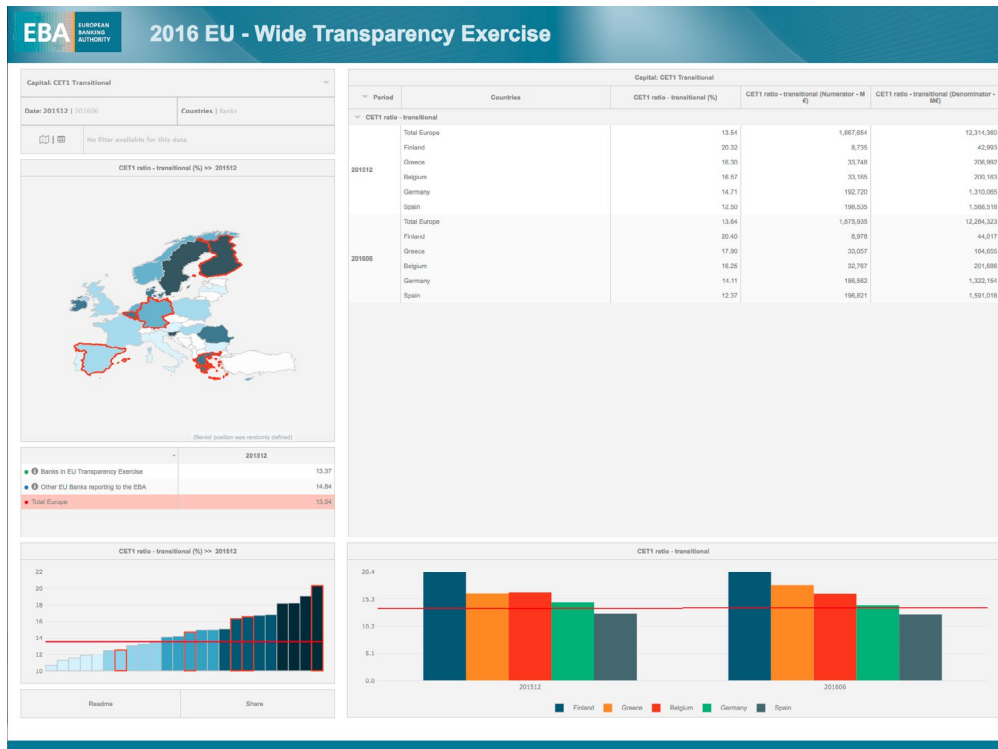
In July 2016, the EBA published a report on the dynamics and drivers of **non-performing loans (NPLs)** for over 160 EU banks. The report showed that, despite improvements, the NPLs level remains high, with significant consequences for the economy and banks' profitability. With over EUR 1 trillion of non-performing loans in the EU banking sector, the NPLs resolution represents one of the biggest challenges and requires a coordinated EU response.

Finally, in 2016, the EBA launched the **EU-wide stress test exercise**, which allows the comparison of EU banks' resilience to adverse economic shocks. The 2016 EU-wide stress test did not contain a pass-fail threshold and assessed 51 banks from 15 EU and EEA countries – 37 from euro area countries and 14 from Denmark, Hungary, Norway, Poland, Sweden and the United Kingdom. The exercise was launched in February 2016 and results were released at the end of July. In line with

the EBA's objective of providing transparency to market participants, detailed information on individual banks' starting points and stress projections was released. Bank-by-bank results were complemented with interactive tools accessible on the EBA's website, as well as an extensive database. While the outcome showed, overall, a resilient EU banking sector, the results varied widely across banks.

The EBA played an important role in promoting and supporting the exchange of information among supervisors. The Memorandum of Understanding (MoU) for **sharing macroprudential data** of individual banks allows supervisors, across Europe, to compare a set of risk indicators for 200 banks. To enhance this data set, the EBA developed its online analytical tools, helping the national supervisors create their own risk dashboard and European and peer group analyses. In addition, for the first time, the EBA published a list of other systemically important institutions (O-SIIs).

Figure 3: EU-wide transparency exercise



Available from: http://tools.eba.europa.eu/interactive-tools/2016/transparency_exercise/map/atlas.html



The EBA published in December 2016 its 'Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013'. Following the release by the Basel Committee on Banking Supervision (BCBS) of a revised version of the **Pillar 3 framework (RPF)** in January 2015, the EBA published its own-initiative guidelines to promote the harmonised and timely implementation of the RPF in the EU. The guidelines allow EU institutions to implement the RPF in a way that is compliant with the requirements of Part Eight of the CRR.

The **EBA's database** was expanded to include more than 300 risk indicators. This new data set provides a wider and comprehensive set of financial and risk information, supporting the EBA to carry out its mandate to monitor and assess market developments, as well as potential risks and vulnerabilities across the EU banking system. In 2016, data quality assurance was one of the cornerstones of the EBA's work. On the one hand, the EBA invested significant resources in developing and assessing the adequacy of over 3 000 validation rules. On the other hand, a new master data management tool was implemented, improving the overall quality of the supervisory report.

Following the European Systemic Risk Board (ESRB) recommendation on funding of credit institutions in 2012, the EBA developed harmonised reporting of **banks' funding plans**, with the first regular reports in 2016.

Protecting consumers and monitoring financial innovation and contributing to secure, easy and efficient payment services across the EU

The EBA's work on **consumer protection** is aimed at reducing consumer detriment when purchasing retail banking products and services. The EBA identified poor remuneration policies and practices as a key driver of mis-selling of retail banking products and services and to address these practices, the EBA published in September 2016 the Final Guidelines on remuneration policies and practices related to the sale and provision of retail banking products and services. The EBA also published, in March 2015, a decision specifying the formula to be used by creditors when calculating the benchmark rate under the Mortgage Credit Directive (MCD).

The EBA continued developing three mandates under the Payment Accounts Directive (PAD) in the first half of 2016: a Consultation Paper on the Draft RTS setting out the European Union's standardised terminology for the most common services linked to a payment account, a draft ITS on the standardised presentation format of the fee information document (FID) and its common symbol, and a draft ITS on the standardised presentation format of the statement of fees (SoF) and its common symbol.

In the area of **financial innovation**, the EBA published a Discussion Paper on innovative uses of consumer data by financial institutions and an opinion addressed to the Commission, European Parliament and Council on the Commission's proposal to bring virtual currencies into the scope of Directive (EU) 2015/849 (Fourth Anti-Money Laundering Directive – 4AMLD).

Regarding **payment services**, the EBA delivered its final draft RTS on the separation of card schemes from processing entities under the IFR. It also continued contributing to the implementation of PSD2, which entered into force in January 2016 and entrusted the EBA with the development of six technical standards and five sets of guidelines.

International engagement

The EBA actively participates in meetings of the Basel Committee on Banking Supervision (BCBS). In 2016, the BCBS established a Task Force on Regulatory Consolidation to mitigate potential spillover effects from the shadow banking system to banks. The EBA is also developing RTS on methods for prudential consolidation (Article 18 of the CRR), which interact at times with the BCBS's work.

The EBA is also a member of the Financial Stability Board's (FSB) Resolution Steering Group (ResG), the Cross-Border Crisis Management Group (CBCM) and several work streams where it actively contributes to the development of the regulatory policy in resolution matters. The EBA's areas of particular focus are bail-in execution, internal TLAC, liquidity in resolution, continuity of access to financial market infrastructures, and effectiveness of cross-border resolution. The EBA participates in the ESRB's Joint Expert Group on Shadow Banking (co-chaired by ESMA) and the ESRB's Joint Expert Group on Investment Funds.

In parallel, the EBA is actively involved in the area of enhancement of central counterparty (CCP) resilience, recovery and resolution. The EBA's work in the area of CCP resolution in 2016 focused primarily on policy contributions to international regulatory fora working on the topic.

The EBA initiated negotiations with the aim of concluding Framework Cooperation Arrangements with key **authorities of non-EU jurisdictions** that have resolution regimes comparable to the BRRD, and which either are major financial centres or have substantial activities of EU banks. The EBA has also been engaging actively in international fora and cooperate with the World Bank, in particular its Financial Sector Advisory Center (FinSAC) on a range of policy issues relating to recovery and resolution.

Working on cross-sectoral issues

In 2016, the **Joint Committee of the European Supervisory Authorities (ESAs)** continued to provide a forum for cross-sectoral coordination and exchange of information across the three ESAs. Under the chairmanship of EIOPA, the Joint Committee focused in particular on consumer protection and cross-sectoral risk assessments. In order to increase the visibility of the Joint Committee, a new website was set up where deliverables about the Joint Committee are centrally published. To further promote the work of the Joint Committee and to celebrate its fifth anniversary, a booklet (*Towards European Supervisory Convergence*) was also published highlighting the Joint Committee's mission, objectives and tasks, as well as its strategic outlook.



In the area of **consumer protection and financial innovation**, the Joint Committee's achievements in 2016 were the following:

- **PRIIPS milestone:** The draft RTS on key information documents (KIDs) for packaged retail and insurance-based investment products (PRIIPs) was submitted to the European Commission for endorsement. The Commission endorsed the draft RTS but the European Parliament rejected them. The ESAs discussed the Commission's proposed amendments and presented a joint Opinion to the three Boards of Supervisors. However, the three ESAs could not provide an agreed joint Opinion on the amended draft RTS to the Commission.
- **Report on financial advice:** Work was completed on the automation of financial advice, which focuses on the characteristics of automated financial advice tools and potential benefits and risks associated with it.
- **Work on Big Data:** Public consultation launched on the potential benefits and risks of Big Data.
- **Joint Consumer Protection Day:** The event was held on 16 September and hosted by ESMA in Paris.

The Joint Committee produced two biannual cross-sectoral reports which identified **key**

risks and vulnerabilities in the EU financial system. The reports were submitted at the spring and autumn 2016 meetings of the Economic and Financial Committee of the Council (EFC-FST), shared with the ESRB and subsequently published on the Joint Committee website.

The Joint Committee continued its work on **anti-money laundering and counter-terrorist financing**. In December, the Joint Committee published its final Guidelines on the characteristics of a risk-based approach to anti-money laundering and terrorist financing supervision and the steps to be taken when conducting supervision on a risk-sensitive basis.

The Joint Committee published its updated annual list of identified financial conglomerates in December 2016, which shows 79 financial conglomerates with the head of the group in an EU/EEA country, one with the head of the group in Australia, one with the head of the group in Bermuda, one with the head of the group in Switzerland and two with the head of the group in the United States.

In addition, the Joint Committee finalised its work on the review of the Joint Guidelines on the prudential assessment of acquisitions and increases of qualifying holdings in the banking, insurance and securities sectors and published its report on good supervisory practices for reducing sole and mechanistic reliance on credit ratings.

Ensuring effective and transparent processes to support the EBA's work

Involving stakeholders in the EBA's regulatory work

A key part of the EBA's engagement with stakeholders is through the Banking Stakeholder Group (BSG). The BSG's view is sought on actions concerning RTS and ITS, guidelines and recommendations, to the extent that these do not concern individual financial institutions. In 2016, the BSG provided opinions on 16 consultation papers, including three submissions to Joint Committee consultation papers and three responses to EBA discussion papers.

The third term of the BSG started on 18 April 2016. Of the 30 new members, six were already participating in the BSG, two were reappointed and 17 were new members representing credit and investment institutions (three of whom represent savings or cooperative banks), consumers and users, academics, SMEs and employees of financial institutions.

Engaging with EU resolution authorities

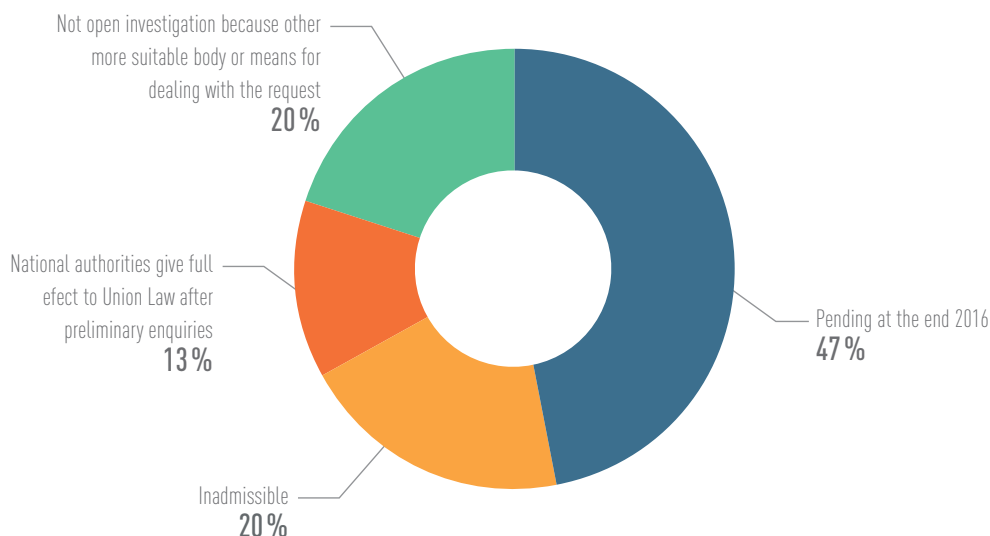
In 2016, the EBA intensified its efforts in terms of engagement with national resolution authorities and the Single Resolution Board (SRB) to monitor and support their harmonised implementation of the crisis management framework and contribute to consistent

and effective resolution planning across Europe. A number of tasks were undertaken to support this objective:

- a focused training programme for resolution authorities and competent authorities on key aspects of the regulatory framework for resolution;
- a survey on the organisational aspects of national resolution authorities;
- active bilateral engagement with a number of national resolution authorities.

Breach of Union law

In 2016, the EBA received 11 requests to investigate an alleged breach or non-application of Union law. From a thematic perspective, the number of cases is too limited to identify trends, although four of the requests related to governance of credit institutions and two to issues regarding deposit guarantee schemes. The other requests raised questions related to the BRRD, the MCD, security of internet payments and the Payment Services Directive, and anti-money laundering supervision. A revised EBA Decision adopting Rules of Procedure for Investigation of Breach of Union Law was adopted by the Board of Supervisors on 23 December 2016.

Figure 4: Breach of Union law cases handled in 2016

Conducting peer reviews

In 2016, the Review Panel conducted a peer review of the ITS on Supervisory Reporting. This peer review started in October 2015 and the final report was approved by the BoS in December 2016. The exercise consisted of a self-assessment carried out by CAs, followed up by the review conducted by peers. It was the first time that the EBA's Review Panel performed on-site visits to all EU CAs, plus the ECB/SSM and three EFTA countries. Overall, the exercise concluded that there were no significantly negative outliers and all CAs had set up fully or largely comprehensive processes to monitor institutions' reporting and assess data quality.

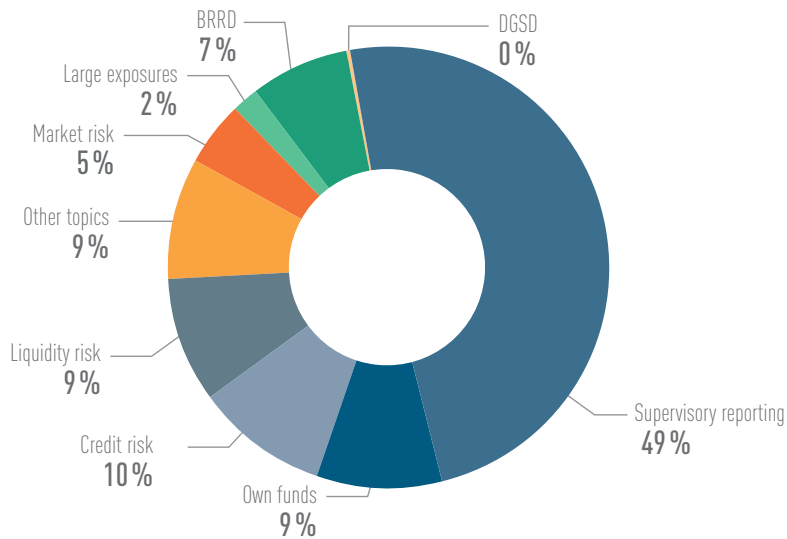
Impact assessment of regulatory proposals

In 2016, the EBA published two reports on monitoring the impact of the transposition of the Basel III requirements in the EU – in March for data as at June 2015, and in September for data as at December 2015 – under a static balance sheet assumption. In addition, the EBA conducted several ad-hoc monitoring exercises to assess the impact of the new Basel reforms on EU banks. In 2016, these ad-hoc exercises included Quantitative Impact Studies (QISs) on BCBS proposals relating to credit risk (Internal Ratings-based Approach and Standardised Approach), FRTB, operational risk, LR and output floors on the total RWA.

At the end of 2016, the EBA published a Report on the cyclical capital requirements under the applicable regulatory framework in the EU (CRD IV/CRR), assessing whether that framework tends to amplify feedback loops between bank capital and the real economy in a procyclical manner. The EBA also published two reports on the implementation of the MREL, a report on liquidity measures under Article 509(1) and the review of the phase-in of the liquidity coverage requirement under Article 461 of the CRR.

Maintaining the Interactive Single Rulebook

Much work has again gone into answering questions from stakeholders regarding the interpretation and implementation of the Single Rulebook. By 31 December 2016, around 3 075 questions (compared with 2 550 at the end of 2015) were submitted via the web interface. Of these about 1 120 were rejected or deleted (up from about 930 at the end of 2015), about 1 110 answered (up from about 830 at the end of 2015) and about 845 are currently under review (up from about 790 at the end of 2015). Of the questions under review, about 95 are on the BRRD and about five are on the DGSD. The remaining c. 745 are on the CRR-CRD, with the majority (about three quarters) focusing on reporting issues, followed by questions on credit risk, liquidity risk, own funds and market risk-related issues.

Figure 5: Questions submitted by topic

Providing legal support to EBA regulatory products

Throughout 2016, the Legal Unit provided legal support to the governing bodies, to the management and to the core policy and operational functions of the EBA. As regards the EBA's regulatory activities, the Legal Unit has ensured legal analysis and support in drafting binding technical standards, guidelines, recommendations and opinions, and legal analysis of proposed technical standards, guidelines and recommendations. Legal advice has also been supplied for oversight activities in producing supervisory recommendations and in dispute resolution as well.

Under the European Economic Area (EEA), the EU and three EFTA member states (Liechtenstein, Norway, Iceland) have agreed, in 2016, to extend the EU's internal market rules also to these EFTA countries.

Delivering digital services to support the EBA's core functions and its internal administration

In 2016, the IT focus was on maintaining and supporting production systems for data collection and infrastructure and implementing a number of projects in line with the IT work programme. To enhance and support the implementation of the Single Rulebook with effective solutions, the EBA implemented two

releases of the European Supervisory Platform (ESP) to extend the regulatory framework in financial and common reporting to Data Point Model (DPM) version 2.4.1. A special application, called Master Data Management (MDM), was deployed and is now being used to centrally manage the reference data. Additionally, a new project was initiated to allow several data providers to notify general or specific information to the EBA on an ad hoc or regular basis.

Regarding business solutions, further improvements were implemented to optimise the administrative efficiency of the EBA. The electronic document management system has been implemented to allow internal EBA users to share, store and retrieve documents in a more consistent, secure and efficient way. In the infrastructure domain, further improvements have been implemented. An internal service desk, integrated with the already existing ticketing system, has been implemented to deal with all internal issues in an automated way.

Communicating and promoting the EBA's work

The EBA's Fifth Anniversary Conference, held in early February, considerably raised the agency's visibility. With a web live stream and active promotion through social media, the feedback received from attendees and speakers was very positive.

KEY AREAS OF FOCUS IN 2017

- Monitoring FinTech and the regulatory perimeter
- Developing disclosure documents to inform consumers about risks, costs and rewards of financial products and fees for services related to a payment account
- Expanding the EBA sample of banks
- Preparing for the 2018 stress test exercise
- Identifying and addressing potential risks in 2017
- Monitoring resolution planning and resolution colleges in the EU
- Increasing competition, enhancing security and facilitating innovation in the market for retail payments in the EU
- Further supervisory policy development for SREP, IRRBB and IT risks
- Facilitating and monitoring the implementation of the Single Rulebook by supervisors and assessing convergence of supervisory practices
- Other policy products and guidelines on recovery planning
- Ensuring efficient functioning of colleges of supervisors
- Enhancing the EBA's training activities
- Equivalence assessment

An *ad-hoc* strategy was developed to communicate the 2016 EU-wide stress test, which included a number of technical briefings and interviews with journalists and the publication of relevant material on the website. The annual transparency exercise results have also attracted strong interest from the press, especially on the findings on NPLs. The outcome of the UK referendum on its EU membership was also a new challenge in terms of both external and internal communication. The EBA's official stance on the impact of Brexit on the Authority was delivered externally through numerous interviews and speeches, and internally through the creation of an ad hoc intranet section.

With 173 news items and press releases published in 2016, compared with 158 in the previous year, the EBA is in line with expectations in terms of reach-out activities. The EBA website registered a regular number of visits: 2.79 million visits (+23% in comparison with 2015), corresponding to 8.87 million page views (+17.3%). By the end of the year, the number of followers of the EBA Twitter account had more than doubled in comparison with the previous year, reaching over 4 100. The EBA's LinkedIn community also grew in 2016 by 17%, attracting 7 400 followers by the end of the year.

Budgetary and financial management

The EBA's budget execution in 2016 was 96.8%. As 2016 was a difficult year for EBA budget management, principally because of the UK referendum on EU membership, this can be considered an acceptable result. While in 2015, the EBA requested an increased amending budget because of the drop in the value of the euro against the pound sterling, in 2016 the exchange rates went the other way and in the summer, the EBA requested a decreased amending budget of EUR 1.572 million, which reduced the its budget from EUR 38.064 million to EUR 36.492 million. The impact of the referendum continued through the second half of the year, resulting in further strengthening of the euro. The political uncertainty also negatively affected the EBA's recruitment plans and thus expenditure on staff.



Key publications and decisions

Comprehensive list of EBA publications and decisions in 2016

Product	Title
Guidelines	Guidelines on communication between competent authorities and auditors
	Guidelines on cooperation agreements between deposit guarantee schemes
	Guidelines on corrections to modified duration for debt instruments
	Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013
	Guidelines on how information should be provided under the BRRD
	Guidelines on ICAAP and ILAAP information
	Guidelines on implicit support for securitisation transactions
	Guidelines on remuneration policies for sales staff
	Guidelines on stress tests of deposit guarantee schemes
	Guidelines on the application of the definition of default
	Joint Committee Guidelines on risk based supervision
Guidelines for the identification of global systemically important institutions (G-SIIs)	
Implementing Technical Standards	ITS amending regulation on benchmarking
	ITS amending ITS on Supervisory reporting of FINREP due to IFRS9
	ITS amending Regulation on Supervisory Reporting
	ITS for the identification of global systemically important institutions (G-SIIs)
	ITS on closely correlated currencies
	ITS on the mapping of ECAIs Credit Assessments for securitisation positions
	ITS on the procedures and forms in respect of acquisitions and increases of qualifying holdings
Regulatory technical standards	3 Joint Committee RTS with regard to presentation, content, review and provision of the key information document, including the methodologies underpinning the risk, reward and costs information in accordance with Regulation (EU) No 1286/2014
	RTS for the identification of global systemically important institutions (G-SIIs)
	3 RTS on assessment methodology for IRB approach
	RTS on criteria for a preferential treatment in cross-border intragroup financial support under LCR
	RTS on definition of default
	RTS on passporting under PSD2
	RTS on payment card schemes and processing entities under the IFR
	RTS on risk mitigation techniques for OTC derivatives not cleared by a central counterparty (CCP)
	RTS on specialised lending exposures
	RTS on the IMA assessment methodology & significant shares
RTS on the materiality threshold for credit obligations	
Opinions/advice	Advice on the review of own funds requirements for exposures to central counterparties (CCPs)
	EBA response to the Commission's Green Paper on Retail Financial Services
	Joint Committee Opinion on EC amend ITS ECAIs Mapping CRR
	Opinion on Commission amendments to ITS on benchmarking of internal approaches
	Opinion on EC amendments on RTS on MREL criteria
	Opinion on EC amendments on RTS on risk-mitigation techniques for OTC derivative contracts not cleared by a CCP

Product	Title
	Opinion on macro-prudential measures
	Opinion on the application of customer due diligence measures to customers who are asylum seekers from higher risk third-countries and territories
	Opinion on the application of the principle of proportionality to the remuneration provisions in Dir 2013/36/EU
	Opinion on the Commission intention not to endorse RTS on additional collateral outflows for derivative contracts
	Opinion on the Commission's proposal to bring virtual currency entities in the scope of the Anti-Money Laundering Directive
	Opinion on the first part of the call for advice on investment firms
	Opinion on the Implementation of the review of the IRB Approach
	Opinion on the PRIIPs RTS
	Opinion on the review of the large exposures framework
	Quantitative and qualitative analysis of IFRS 9 – 2016
	Report on leverage ratio calibration
Decisions	Decision on data for supervisory benchmarking
	Decision on specifying the benchmark rate under the Mortgage Credit Directive
Reports	Comparative report on governance arrangements and recovery indicators
	Consumer trends report 2016
	CRDIV-CRR Basel III Monitoring Exercise Report – December 2015
	CRDIV-CRR Basel III Monitoring Exercise Report – June 2015
	EBA Risk Assessment Report – December 2016
	Final report on MREL – Report on the implementation and design of the MREL framework
	Joint Committee Risk Report - Autumn 2016
	Joint Committee Risks and vulnerabilities report
	QIS report on default definition October 2016
	Report on Asset Encumbrance – June 2016
	Report on benchmarking of remuneration and high earners 2014
	Report on core funding ratio
	Report on covered bonds
	Report on impact assessment of IFRS9
	Report on liquidity measures and the review of the phase-in of the liquidity coverage requirement
	Report on SA CCR and FRTB implementation
	Report on securitisation risk retention due diligence and disclosure
	Report on SMEs and SME supporting factors
	Report on the appropriate target level basis for resolution financing arrangements under BRRD
	Report on the assessment of SME proposals for CRD IV/CRR
	Report on the benchmarking of diversity practices
	Report on the convergence of supervisory practices
	Report on the cyclical capital requirements
	Report on the dynamics and drivers of non-performing exposures in the EU banking sector
	Report on the functioning of supervisory colleges in 2015
	Report on the leverage ratio requirements under article 511 of the CRR
	Report on the monitoring of Additional Tier 1 (AT1) instruments of European Union (EU) institutions
	Report on the regulatory review of the IRB Approach
	Report on the review of the large exposures regime
	Report on unsolicited credit assessments

Product	Title
Consultation Papers	CP on Amending RTS on CVA proxy spread
	CP on EBA interim report on MREL
	CP on Guidelines on authorisation and registration under PSD2
	CP on Guidelines on connected clients
	CP on Guidelines on corrections to modified duration for debt instruments
	CP on Guidelines on credit risk management practices and accounting for expected credit losses
	CP on Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013
	CP on Guidelines on ICT Risk Assessment under the SREP
	CP on Guidelines on implicit support under Article 248(2) of Regulation (EU) No 575/2013
	CP on Guidelines on internal governance
	CP on Guidelines on major incidents reporting under PSD2
	CP on Guidelines on PD estimation, LGD estimation and treatment of defaulted assets
	CP on Guidelines on supervision of significant branches
	CP on Guidelines on the criteria on how to stipulate the minimum monetary amount of the professional indemnity insurance under PSD2
	CP on Guidelines on the LCR disclosure
	CP on ITS amending Implementing Regulation (EU) No 680/2014 with regard to operational risk and sovereign exposures
	CP on ITS on additional liquidity monitoring metrics
	CP on ITS on amendments to FINREP due to IFRS 9
	CP on ITS on MREL reporting by Resolution Authorities
	CP on ITS on proposed amendments to supervisory reporting (COREP)
	CP on Joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body
	CP on Report on the appropriate target level basis for resolution financing arrangements under BRRD
	CP on RTS and ITS on the authorisation of credit institutions
	CP on RTS on strong customer authentication and secure communication under PSD2
	CP on RTS on the disclosure of encumbered and unencumbered assets
	CP on Technical Standards on standardised terminology and disclosure documents under the PAD
	Discussion Papers
DP on New prudential regime for investment firms	
Joint Committee DP on the use of big data by financial institutions	

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