26 October 2014

2014 EU-wide stress test: Frequently Asked Questions

Publication of results and additional data

1. **What is the EBA publishing on its website on 26 October?**

   The EBA is publishing up to 12,000 data points for each EU bank involved in the EU-wide exercise. This amounts to over 1 million data points published in aggregate that will cover banks' composition of capital, risk weighted assets (RWAs), profit and loss (P&L), exposures to sovereigns, credit risk and securitisation. The EBA is also, for the first time, disclosing a fully loaded CRR/CRD4 Common Equity Tier 1 (CET1) capital ratio for each bank under both the baseline and adverse scenario at the end point of the exercise (2016).

2. **In what format and what type of data is the EBA publishing?**

   The EBA is publishing an aggregate summary report; an interactive map tool summarising the main results and drivers for the results, by country and by bank; bank-by-bank results (reported in the EBA disclosure templates); a set of interactive Excel-tools that provide users with main aggregate and bank-by-bank results and underlying figures; and a downloadable database and data model (CSV format) including all bank-level information provided in the EBA disclosure templates.

3. **What are other competent authorities publishing on their own websites?**

   National competent authorities, including the ECB, are publishing the results for their own geographical areas of competence in the same format as the EBA. You may want to refer directly to the competent authority of your interest for detailed information.

4. **How can you guarantee that data collected is of good quality and that results are credible?**

   Competent authorities, including the ECB for the Eurozone banks, have the responsibility of checking the quality of the data submitted by banks. In this respect, the EBA has provided competent authorities with reasonably constrained methodology, consistent data definitions and templates, and benchmarks that support the robustness and reliability of the quality assurance process.

5. **How can you ensure that the data provided by banks outside the Eurozone incorporates the AQR outcome?**

On 21 October 2013, the EBA issued a recommendation to all competent authorities asking them to undertake asset quality reviews (AQRs) of asset classes considered to be high risk using, on a best effort basis, common definitions of non-performing loans and forbearance.

6. **Aren't national discretions going to water down the exercise? Namely, don't you think that a definition of capital that allows national discretions can guarantee comparability of the exercise and level playing field?**

In the development of the common methodology, the EBA has taken into account the current legal setting in the CRDIV/CRR which allows for the use of transitional capital definitions as per 2014, 2015 and 2016 (i.e. the time horizon of the exercise). However, for comparability reasons and also to show banks' pathway towards the full implementation of CRDIV/CRR, the EBA is disclosing details of the components of capital and the fully transitioned capital ratios.

Process, sample, methodology and scenario

7. **Who is doing what on this stress test?**

The EU-wide stress test is conceived and run in close cooperation between the EBA and the National Competent Authorities, including the ECB. The EBA has provided a common set of tools, including a common methodology, an internally consistent but relevant scenario, and a set of templates that have been commonly agreed by all parties involved. National Competent Authorities (NCAs) are responsible for coordinating instructions to banks and receive the resulting information. NCAs and the ECB have been responsible for the quality assurance process and for the definition of any additional sensitivities (which come as a complement not as an alternative to the common EU-wide exercise).The EBA acts as the data hub for the dissemination of the final results. NCAs and the ECB are then tasked with supervisory reactive measures.

8. **Why is the EBA's sample different from the one in the ECB's comprehensive assessment?**

The EU-wide stress test exercise is carried out on a sample of 123 banks covering at least 50% of the national banking sector in each EU Member State and Norway, as expressed in terms of total consolidated assets as of end of 2013. National Competent Authorities, including the ECB, could expand the sample if they deemed it necessary. The EU-wide stress test has been conducted on the highest level of consolidation (group level) and subsidiaries of banks from other EU on non-EU countries were excluded. On the other hand, banking groups from other European countries outside the euro-zone were included. This explains the difference between the ECB's sample, which covers 130 banks (out of which 103 are part of the EU-wide exercise) and the EBA sample.
The full list of banks for the EU-wide stress test is reported here: *https://www.eba.europa.eu/documents/10180/842169/2014+09+03_Sample+of+banks+EU-wide+stress+test+2014.pdf*

9. **How can you ensure that the adverse scenario has captured all possible economic developments and potential risks across the EU while taking account also a country's specificities?**

   The European Systemic Risk Board has developed an adverse scenario that is a relevant and consistent across the entire EU. It reflects the systemic risks that represent the most pertinent threats to the stability of the EU banking sector. However, a scenario cannot capture all possible risks, but it does give an insight into the sensitivity of banks to macroeconomic shocks.

10. **Have considered liquidity risk in this round of stress test?**

    The focus of this exercise is on banks' capital. For this reason, the exercise covers mainly credit and market risk, as well as the impact of cost of funding. However, it does not include liquidity risk since it is not suitable for a three year time horizon scenario.

11. **What will happen with Banco Espirito Santo/Novo Banco?**

    Following the recent resolution decision applied to Banco Espírito Santo that led to the creation of Novo Banco, the stress test exercise for Novo Banco has been postponed to a later date. The exact timing will be confirmed by the ECB and national Portuguese authority in due course.

Next steps

12. **What will happen to banks that have failed?**

    Banks that fall below the 5.5% under the adverse scenario will have to present plans to their competent authorities on how they intend to address the vulnerabilities identified in the exercise. Competent authorities are responsible for the supervisory reaction function, for assessing banks' plans and ensuring they implement them. The EBA will continue with its work to ensure that EU banks are well capitalised and can fulfil their role of lending to society.

13. **How do you think the exercise will restore credibility?**

    The whole objective of the exercise is not to produce a list of good and bad institutions, but to assess the resilience and cast a light on the EU banking system, so that investors can see for themselves that after the recapitalisation exercises and AQRs banks in the EU are well capitalised and fit to do their job properly, contributing to supporting the economic recovery.

14. **Going forward would you change the frequency of the stress test or would you change the approach?**

    As part of its tasks, the EBA carries out regular risk assessments. Our regulation mandates to coordinate stress tests on a regular basis, the frequency is decided on the basis of market developments that we are constantly monitoring.