

The left side of the slide features a vertical orange bar. To its left, there is a background of teal and light blue wavy lines. A large, semi-transparent blue star is positioned in the upper left, and a smaller, semi-transparent teal star is in the center. The letters 'EBA' are printed in large, bold, white font at the bottom left.

**EBA**

# Towards a New European Supervisory Authority: Rules, Oversight and Stress Testing

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# Outline

- Changes in the EU supervisory landscape
- EU common rule book
- Oversight by the EBA of cross border banks
- EU-wide stress testing

# New institutional arrangements

EU central banks

EU supervisors

ESRB

Joint Committee

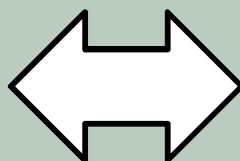
EIOPA

EBA

ESMA

Macro  
prudential

Micro  
prudential



# The European Banking Authority

## Objectives

- Establishing EU single rule book
- Upgrading quality and consistency of supervision
- Reinforcing oversight of cross-border groups
- Early warning of upcoming vulnerabilities
- Effective early intervention and bank resolution

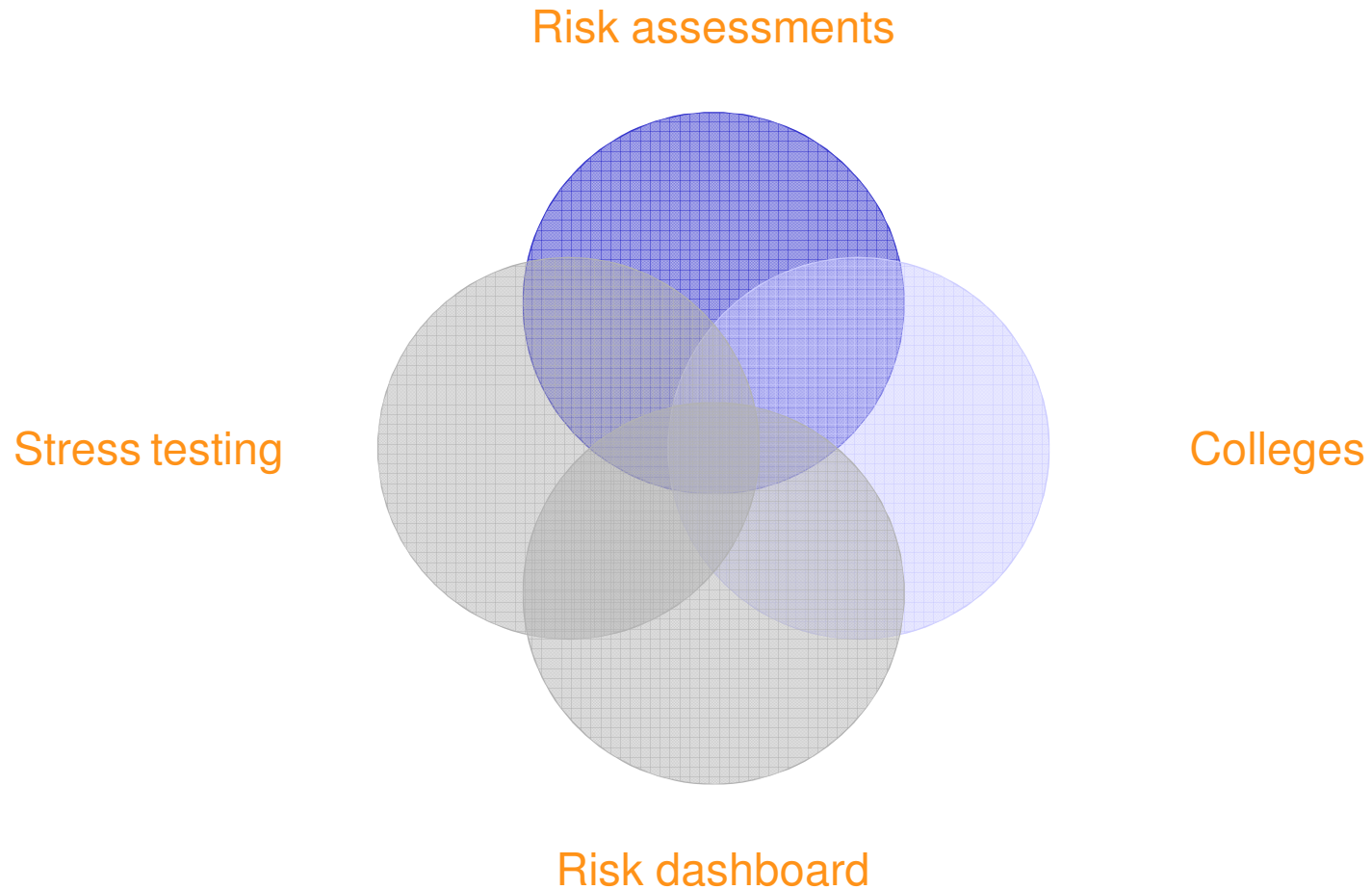
## Main tasks

- Develop binding technical standards, guidelines, recommendations
- Promoting common supervisory culture / supervisory practices
- Risk dashboards for major financial groups
- Monitoring effectiveness colleges
- EU-wide risk assessments and stress tests
- Reacting on risk warnings
- Handling of emergency situations

# Contributing to an EU rulebook

- ‘Common EU rulebook’
  - maximum harmonisation...
  - ...but proportionate to different financial institutions
- EBA and Binding Technical Standards
  - For Basel III, 40+
  - Monitoring the implementation in the EU
  - Common Basel III reporting
  - Investigating breaches of EU rules
- Scope:
  - Basel III, Bank resolution, Financial innovation, Consumer protection, Deposit guarantee schemes, AML, Payment services

# Oversight of cross border banks



# Colleges for EU cross border banks

- Day to day supervision by national supervisory authority
- Supervision organised via colleges of supervisors
- Home country supervisor in the lead
- Main decisions in core college = most involved supervisors
- Effective communication group-wide via extended college
- **One globally operating EU bank has one college**
- Supervisors from within and outside the EU
  
- EBA to build capacity to effectively oversee colleges of EU cross border banks
- In total about 110 EU cross border banks

# Risk assessments for EU cross border banks

- Each national supervisor has responsibility to perform own risk assessment of its (part of the cross border) bank
- Risk assessment based upon national SREP
- Each supervisor maps own risk assessment to common template
- Risk assessments to be discussed within college under steer lead supervisor
- For EU supervisors challenge is to achieve agreed upon assessment of risks and common decision on capital 'add-on' needed
- In case national EU supervisors disagree, EBA to mediate and take decision
  
- Non-EU supervisors also to take part in process?
- 3<sup>rd</sup> country regulatory regime still under development
  
- Thematic risk assessments!
- Responses to ESRB recommendations!!



# Risk dashboards on EU cross border banks

- EBA has developed key risk indicators to monitor major banks (e.g. on solvency, liquidity and profitability)
- All major EU banks to periodically report to EBA via national supervisors (will become easier when EU has uniform supervisory reporting in 2013)
- EBA to analyse and provide peer group data to national supervisors
  
- KRIs also to be used as input for ESRB analyses
- ESRB to provide systems wide analysis and recommendations to EBA
- National supervisors to respond to recommendations via EBA
  
- EBA to have permanent capacity to respond in crisis situations, e.g. as in the Icelandic crisis
- EBA to have emergency powers in the 'interest of the stability of the EU financial system', e.g. to ban short selling

## EBA's EU-wide stress tests of banks

- The Authority shall, in cooperation with the ESRB, initiate and coordinate Union-wide assessments of the resilience of financial institutions to adverse market developments (Art. 17)
- EBA shall develop, for application by the competent authorities, common methodologies for assessing the effect of economic scenarios on an institution's financial positions (Art. 12 and 17)
- EBA shall, where appropriate, address recommendation to the competent authority to correct issues identified in the stress test (Art.12)
- The Authority shall also develop an adequate stress testing regime to help identifying those institutions that may pose systemic risk. These institutions shall be subject to strengthened supervision (Art. 12a)

## EU-wide stress tests: 2009-2010

- 2009 – first EU-wide stress test of 22 banks coordinated by CEBS. Individual results kept confidential. Summary report to the EFC and ECOFIN
- In 2010 CEBS was mandated by the ECOFIN to conduct, in cooperation with the European Central Bank (ECB), the European Commission and the EU national supervisory authorities, a second EU-wide stress testing exercise
- The overall objective of the 2010 exercise was to provide **policy information for assessing the resilience of the EU banking system to possible adverse economic developments** and to assess the ability of banks in the exercise to absorb possible shocks on credit and market risks, including sovereign risks
- The exercise included a sample of 91 European banks, representing **65% of the European market** in terms of total assets. The sample has been built by including banks, in descending order of size, so as to cover at least 50% of the respective national banking sector, as expressed in terms of total assets

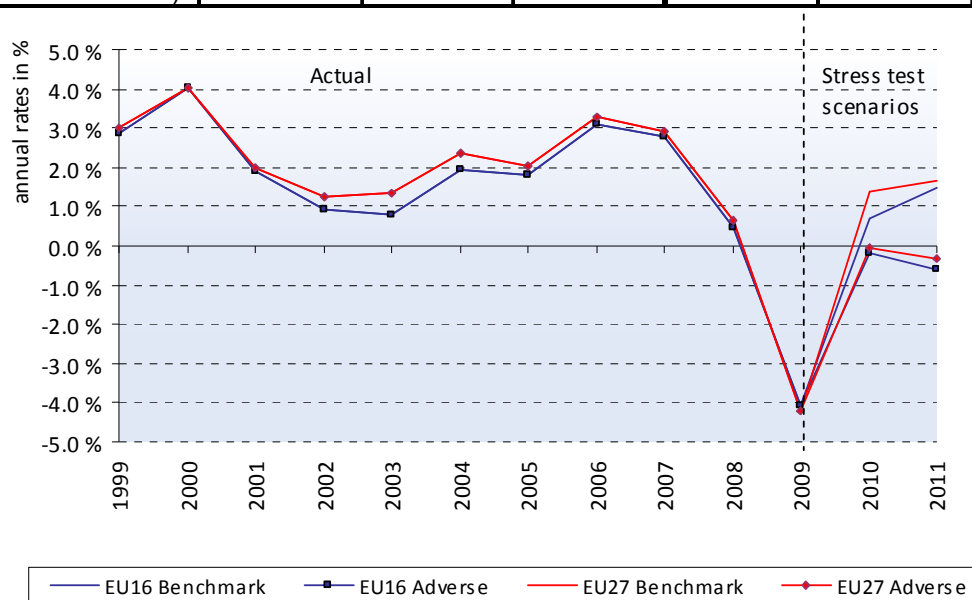
# History of EU-wide stress test: 2010

- CEBS has coordinated (20 national supervisory authorities) the exercise and conducted cross-checks over the results, which were submitted to a peer review process in order to ensure their consistency and comparability
- The results of the stress test exercise have been published on an individual basis by the institutions and the EU national supervisory authorities. Moreover CEBS published a summary report, providing details on the scenarios, methodologies and aggregate results of the exercise
- Focus on **credit and market risk**, including the exposures to **European sovereign debt**
- Set of **two macro-economic scenarios** (baseline and adverse) incorporating also addition valuation shock to EU sovereign debt instruments
- For the purposes of the market risk stress test, a set of stressed market parameters was applied to **the trading book positions**

# EU-wide stress test 2010: scenarios

Evolution of aggregate key macro-economic variables in the scenarios in the historical context:

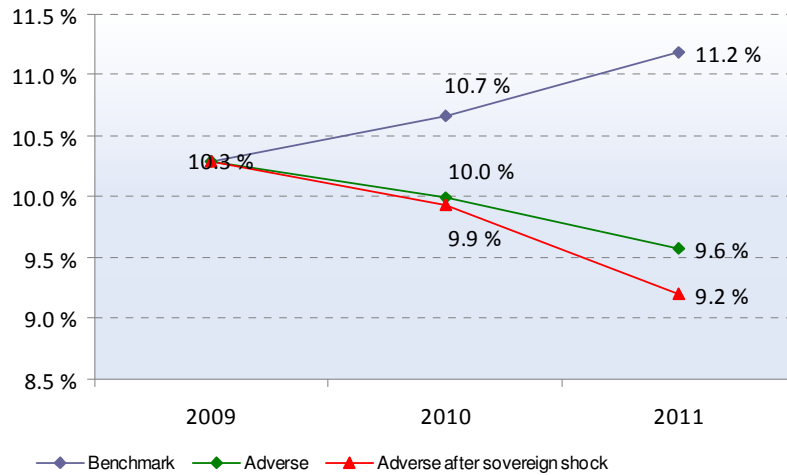
	Realised			2010 Exercise			
				Benchmark		Adverse	
	2008	2009	2010 Q1	2010	2011	2010	2011
<b>EU27</b>							
GDP (y-o-y)	0.7%	-4.2%	0.2%	1.0%	1.7%	0.0%	-0.4%
Unemployment (% of labour force)	7.0%	8.9%	9.6%	9.8%	9.7%	10.5%	11.0%
<b>Euro area</b>							
GDP (y-o-y)	0.6%	-4.1%	0.2%	0.7%	1.5%	-0.2%	-0.6%
Unemployment (% of labour force)	7.5%	9.4%	10.0%	10.7%	10.9%	10.8%	11.5%
<b>US</b>							
GDP (y-o-y)	0.4%	-2.4%	0.7%	2.2%	2.0%	1.5%	0.6%
Unemployment (% of labour force)	5.8%	9.3%	9.7%	10.0%	10.2%	10.2%	11.1%



Source: Eurostat up to 2009, 2010-2011 stress test scenarios

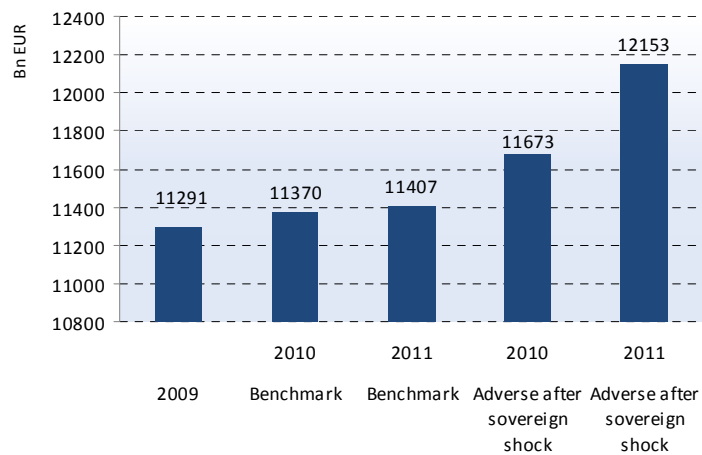
# EU-wide stress test 2010: results

## Aggregate Tier 1 capital ratio



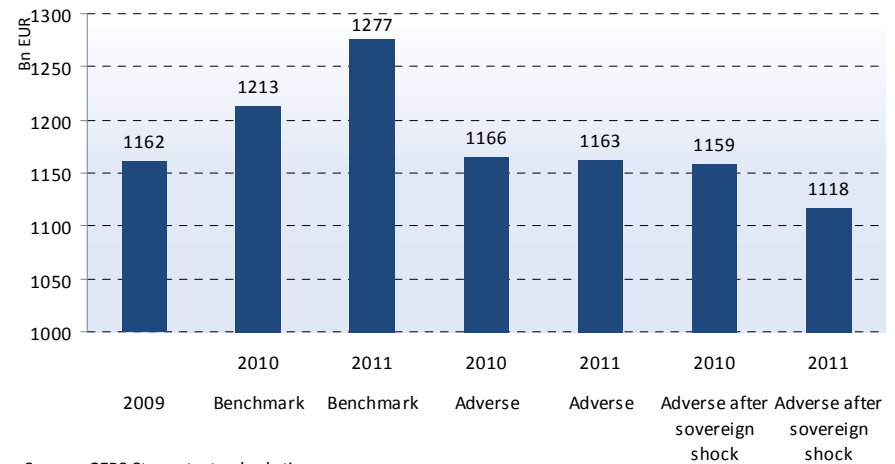
Source: Stress test calculations

## Aggregate RWA



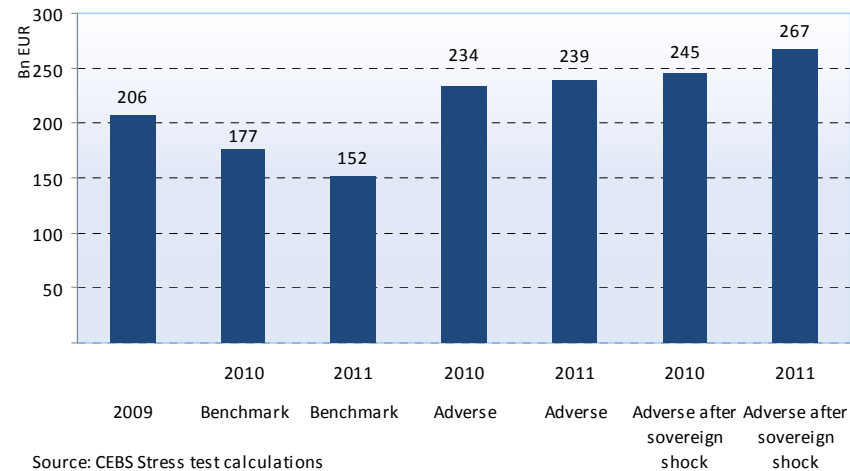
Source: CEBS Stress test calculations

## Aggregate Tier 1 own funds



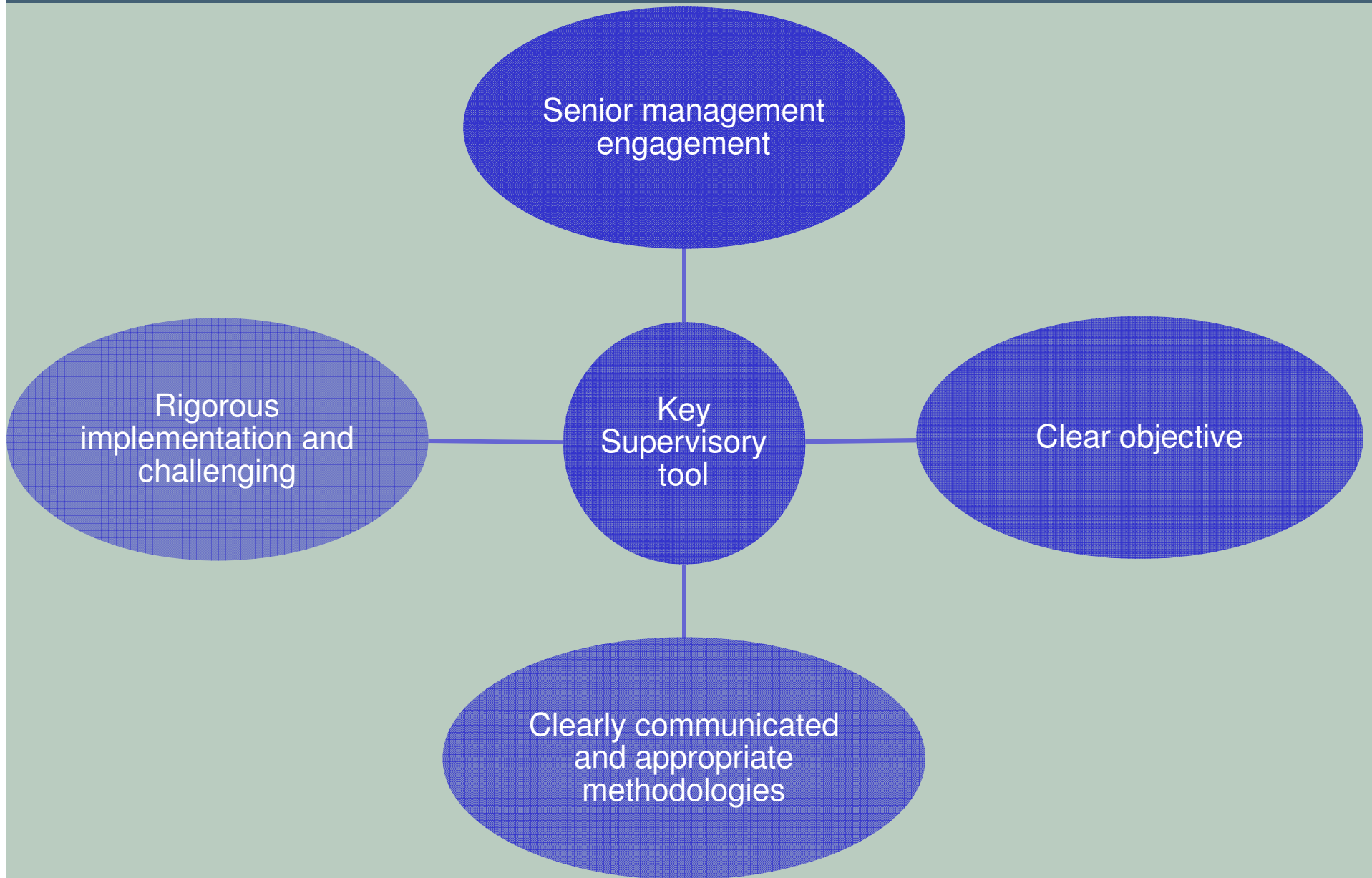
Source: CEBS Stress test calculations

## Aggregate impairments (excluding trading losses)



Source: CEBS Stress test calculations

# EU-wide stress test 2010: Lessons learnt



# EBA EU-wide stress test 2011

- Testing of bank's capital adequacy
- Credit risk, market risk and sovereign risk
- Results to be published on a bank by bank basis
- Timetable results similar to 2010
- Scope similar to 2010
- **Scenario's different**
- **Rigorous peer review process**
- **More centrally steered**
- **More focus on back-stop measures**
- **Transparent in key exposures and components**





**EBA**

***THANK YOU***

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