



# EBA REPORT ON SUPERVISORY COLLEGES IN 2018

APRIL 2019

**EBA**

EUROPEAN  
BANKING  
AUTHORITY

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# Abbreviations

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<b>AML</b>	anti-money laundering
<b>BCBS</b>	Basel Committee on Banking Supervision
<b>BRRD</b>	Bank Recovery and Resolution Directive — Directive 2014/59/EU
<b>CFT</b>	countering the financing of terrorism
<b>CRD</b>	Capital Requirements Directive — Directive 2013/36/EU)
<b>CRR</b>	Capital Requirements Regulation — Regulation (EU) No 2013/575
<b>EBA</b>	European Banking Authority
<b>EEA</b>	European Economic Area
<b>EU</b>	European Union
<b>GRP</b>	group recovery plan
<b>ICAAP</b>	internal capital adequacy assessment process
<b>IFRS</b>	International Financial Reporting Standards
<b>ILAAP</b>	Internal liquidity adequacy assessment process
<b>IT</b>	information technology
<b>ITS</b>	implementing technical standards
<b>NPL</b>	non-performing loan
<b>RTS</b>	regulatory technical standards
<b>SEP</b>	supervisory examination programme
<b>SREP</b>	supervisory review and evaluation process
<b>WCCA</b>	written coordination and cooperation arrangement

## Executive summary

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Colleges of supervisors play an important role in the efficient, effective and consistent supervision of financial institutions operating across borders. They are the forum for planning and coordinating supervisory activities, for conducting supervisory risk assessments, for reaching joint decisions on institution-specific requirements and for sharing important information about the supervised institutions.

Based on its founding regulation, the European Banking Authority (EBA) plays a leading role in monitoring the functioning of colleges of supervisors and in fostering convergence and consistency in the application of the *Single Rulebook* among these colleges. The monitoring of supervisory colleges for the main cross-border European banking groups is an ongoing activity performed throughout the year by the EBA.

The EBA's findings regarding the monitoring of supervisory colleges are summarised in an annual report.

This 2018 report on colleges of supervisors includes a brief summary of the colleges in the European Economic Area (EEA) and of the EBA's monitoring role. The core part of the report is dedicated to the key observations regarding the 2018 cycle of supervisory colleges. The observations cover (i) organisational aspects of colleges' work and interactions, (ii) colleges' legal deliverables and (iii) the key topics for supervisory attention in 2018. Considering the improvement observed in the functioning of colleges over the years, the report mainly focuses on the quality of the contents, in particular of the colleges' deliverables. Throughout this section of the report, the good practices that have been observed are highlighted. The report also gives an overview of the 'tools' provided by the EBA to support supervisory colleges. Finally, the report sets out the colleges' action plan for 2019.

In 2018, colleges of supervisors in general continued to organise multilateral interactions, although the format and frequency of these interactions varied. The closely monitored colleges maintained frequent interactions and exceeded the minimum requirement of organising one physical meeting per year, as set out in the implementing technical standards (ITS) on the operational functioning of colleges<sup>1</sup>. The EBA has observed that, in general, the consolidating supervisor facilitated and promoted open, multilateral and in-depth discussions and exchanges of views during the colleges' meetings.

The EBA also noticed a relatively high level of convergence among the closely monitored colleges in terms of form and conduct. At the same time, there remain some areas for improvement, for instance regarding the timely distribution of meeting documents. As required by the ITS on the operational functioning of colleges, documents should be circulated

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<sup>1</sup> Commission Implementing Regulation (EU) 2016/99 of 16 October 2015 on the operational functioning of colleges of supervisors, Article 6 (1).

well in advance to the college meeting to enable all participants to actively contribute to the discussions.

The topic of anti-money laundering and countering the financing of terrorism has increasingly been put on the agendas of the supervisory colleges' meetings. Considering its ever-increasing importance, the EBA encourages supervisory colleges to discuss this topic on a regular basis and to ensure that the outcomes regarding this topic are correctly and systematically reflected in the group risk assessment reports and in reports on the supervisory review and evaluation process.

The EBA has examined the colleges' deliverables (the group risk/liquidity risk assessment reports, as well as the joint decisions on capital, liquidity and recovery plans) for the closely monitored colleges. Overall, significant improvements have been achieved over the past couple of years in the colleges' deliverables.

However, further efforts are expected from both the home and the host supervisors to enhance the group risk/liquidity risk assessment reports, which should be used as tools for performing the joint assessments on capital and liquidity. The EBA has observed that, in some cases, the group risk/liquidity risk assessment reports still tend to be a compilation of the findings and assessments of the individual competent authorities and are not always a real joint assessment of the group-wide risks.

When examining, in particular, the group risk assessment reports, the EBA focused, in accordance with its roadmap, on the sections dedicated to the business model analysis, the internal governance arrangements and the review of the internal capital adequacy assessment process. The information provided in these sections does not always enable readers to form a thorough opinion on these topics by reading only the report. Consequently, these sections would need to be enhanced, without necessarily lengthening them, to provide the readers with all of the key information and to give them clear conclusions. Based on an examination of the group risk assessment reports of several closely monitored colleges, the EBA has identified a list of information that needs to be mentioned, since it would be beneficial for other colleges to also include this information in their reports.

Regarding the quality of both the capital and the liquidity joint decisions, the EBA has observed significant improvements over the years and has also noticed that, in general, the reasoning in the capital joint decisions was more robust than in the liquidity joint decisions, with the level of detail in the rationale of the latter sometimes varying.

Regarding the colleges' joint decisions on group recovery plans, the EBA has noticed that, in general, these joint decisions were based on comprehensive assessments of the group recovery plans. While the colleges of supervisors noticed advancements in the group recovery plans compared with previous versions, they also identified areas for further improvement, especially with regard to their operationalisation.

The '2018 EBA Colleges Action Plan', which was annexed to the 2017 report on colleges of supervisors <sup>(2)</sup>, included a list of key topics for supervisory attention in 2018. These key topics were related to (i) non-performing loan cleaning, (ii) business model and profitability, (iii) information technology risk and operational resilience, (iv) internal governance, (v) Brexit, (vi) structural changes and (vii) the International Financial Reporting Standards (IFRS) 9. In general, in 2018, colleges of supervisors reflected these topics in their interactions.

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<sup>2</sup> <https://eba.europa.eu/documents/10180/2159826/Report+on+colleges+functioning+2017.pdf/cde45674-1718-43dc-b22e-8fe7f7157186>

# 1 Supervisory colleges in the EEA and the EBA's role and approach to colleges

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## 1.1 Objective and scope of the report

1. The EBA founding regulation <sup>(3)</sup> mandates the European Banking Authority (EBA) to 'promote the efficient, effective and consistent functioning of colleges of supervisors, and foster the consistency of the application of Union law among the supervisory colleges'.
2. In line with this mandate, the EBA, which participates as a 'competent authority' in the activities of colleges, reflects its observations in an annual colleges report, aiming to:
  - inform stakeholders of its observations on the current activities of supervisory colleges;
  - identify any progress made and the areas requiring improvement;
  - increase overall standards by sharing best practices; and
  - increase the transparency for stakeholders regarding the activities and the functioning of colleges.
3. This report is related to the 2018 cycle of supervisory colleges and focuses on colleges' meetings that took place during 2018.

## 1.2 Cross-border banking groups in the EEA and list of colleges monitored

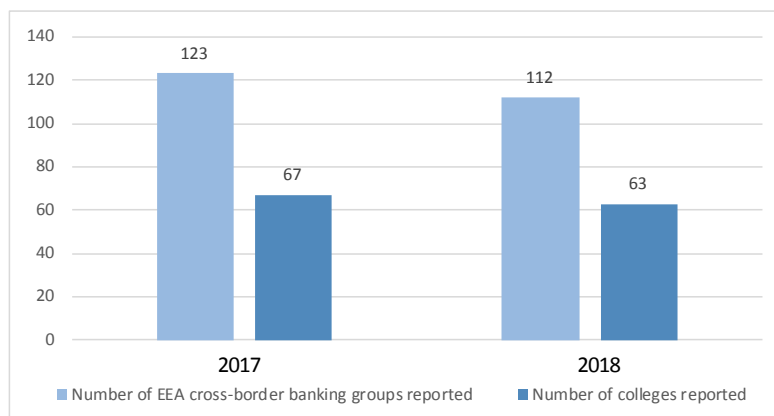
4. Enhanced cooperation between competent authorities, at both the European Union (EU) and the global level, is key to strengthening the supervision of cross-border banking groups. Colleges of supervisors are the vehicles for the coordination of supervisory activities. Under EU law, colleges of supervisors have to be established for European Economic Area (EEA) banks with subsidiaries or significant branches in other EEA countries. They may include supervisors in non-EEA countries, where relevant.
5. The list of colleges monitored is reviewed on a yearly basis. For this purpose, the EBA uses the results of an annual mapping exercise that allows the EEA cross-border banking groups and the supervisory colleges that are active in supervising these groups to be identified.
6. Based on the information obtained from EEA consolidating supervisors during the 2018 mapping exercise, 112 EEA headquartered cross-border banking groups were identified

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<sup>3</sup> Regulation (EU) No 1093/2010 of the European Parliament and of the Council establishing a European Supervisory Authority (European Banking Authority).

(versus 123 in 2017), for which 63 active colleges have been reported (versus 67 in 2017) (see Figure 1).

- Figure 1: EEA cross-border banking groups and active colleges (2018 versus 2017)



- In addition, five active colleges were reported to have been set up for third-country banking groups at the EEA sub-consolidated level in 2018 (versus seven in 2017).
- Overall, the number of colleges reported in 2018 (68) has slightly decreased compared with 2017 (74), as the restructuring of banking groups was not counter-balanced by newly established groups.

### 1.3 The role of supervisory colleges

- Colleges of supervisors are permanent, although flexible, coordination structures that bring together the competent authorities involved in the supervision of a cross-border banking group. In practice, colleges are a mechanism for the exchange of information between home and host authorities.
- As set out in Capital Requirements Directive (CRD) IV <sup>(4)</sup>, the consolidating supervisor must establish colleges of supervisors to facilitate the coordination of supervisory activities, to reach joint decisions on institution-specific prudential requirements, to share information in emergency situations and, subject to confidentiality requirements, to ensure appropriate coordination and cooperation with relevant third-country supervisory authorities, where appropriate.
- Colleges of supervisors must provide a framework for the consolidating supervisor, the EBA and the other competent authorities concerned, to carry out different tasks, in particular:
  - exchanging information between each other and with the EBA, in accordance with the EBA founding regulation;

<sup>4</sup> Directive 2013/36/EU.



- determining supervisory examination programmes (SEPs) based on a risk assessment of the group;
- increasing the efficiency of supervision by removing the unnecessary duplication of supervisory requirements, including in relation to information requests;
- consistently applying the prudential requirements under CRD IV and the Capital Requirements Regulation (CRR) <sup>(5)</sup>, across all entities within a group of institutions.

## 1.4 The role of the EBA in monitoring colleges

12. The legal tasks and powers of the EBA in relation to supervisory colleges are established mainly in CRD IV and in the EBA founding regulation.
13. According to these texts, the EBA must contribute to promoting and monitoring the efficient, effective and consistent functioning of the colleges of supervisors and must foster consistent application of the *Single Rulebook* among these colleges. With the objective of converging supervisory best practices, staff from the EBA must be able to participate in the activities of the colleges of supervisors carried out jointly by two or more competent authorities.
14. In 2018, the monitoring and assessment of the supervisory colleges by the EBA covered the following main elements:
  - organisational aspects
  - colleges' interactions
  - colleges' legal deliverables
    - group risk/liquidity risk assessment reports
    - joint decisions on capital and liquidity
    - joint decisions on the assessment of group recovery plans (GRPs)
  - key topics for supervisory attention.
15. According to its means, in 2018, the EBA's participation in meetings and conference calls focused on the closely monitored colleges. Moreover, the EBA focused less on procedural aspects of the functioning of colleges, which over the last couple of years have reached a relatively high level of maturity, and more on the quality of the content of the colleges' deliverables.

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<sup>5</sup> Regulation (EU) No 2013/575.

## 2 Key observations on the 2018 cycle of supervisory colleges

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16. This section includes the key observations identified by the EBA as part of its participation in the activities of the 2018 cycle of supervisory colleges. The observations cover organisational aspects of colleges' work and colleges' interactions (section 2.1), colleges' legal deliverables (sections 2.2 and 2.3) and the key topics for supervisory attention in 2018 (section 2.4).
17. The following sections (from 2.1 to 2.3) include the main findings and progress achieved, as well as areas for improvement. The best practices observed are also highlighted throughout the sections.

### 2.1 Organisational aspects of colleges' work and colleges' interactions

#### 2.1.1 Organisational aspects of colleges' work

##### **Written coordination and cooperation arrangements (WCCAs)**

18. To facilitate and establish effective supervision, the consolidating supervisor and the other competent authorities must have WCCAs in place. The majority of colleges have finalised their WCCAs.
19. In some cases, the EBA has observed that the WCCAs need to be reviewed in accordance with the implementing technical standards (ITS) on the operational functioning of colleges<sup>(6)</sup>, in order to take into account changes in the elements listed in Article 5 of the regulatory technical standards (RTS) on the general conditions for the functioning of colleges<sup>(7)</sup>.
20. Among the elements to be amended, as identified by the EBA, are the description of the sub-structures of the colleges (considering, for instance, the existence of anti-money laundering (AML) sub-structures), the identification of the members and observers of the colleges (considering, for instance, the relevance of inviting third-country competent authorities or the resolution authorities, as this could be greatly beneficial to improving the understanding of the resolution strategy by competent authorities) and the description of the framework for providing coordinated input to the resolution colleges.

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<sup>6</sup> Commission Implementing Regulation (EU) 2016/99 of 16 October 2015 on the operational functioning of colleges of supervisors.

<sup>7</sup> Commission Delegated Regulation (EU) 2016/98 of 16 October 2015 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards for specifying the general conditions for the functioning of colleges of supervisors.

## Meeting agendas

21. In principle, the consolidating supervisor must ensure that the objectives of college meetings are reflected in the agenda of the meetings and must take into account any proposals on agenda items made by the members of the college.
22. The EBA made the following observations.
  - The topic of AML and countering the financing of terrorism (CFT) (see section 2.1.3) has been increasingly put on the agendas of the supervisory colleges' meetings. This topic is of ever-increasing importance. Therefore, the EBA encourages supervisory colleges to discuss this topic on a regular basis and to invite the relevant AML supervisors to those meetings.
  - In some cases, not enough time was dedicated to all of the agenda items and the colleges' members were under pressure to terminate the discussions. The EBA recommends that college members avoid this kind of situation and adapt the length and number of meetings to be able to have in-depth discussions on all of the items that are put on the agenda. In addition to college meetings, conference calls may be organised to share information and allow for further discussion on dedicated topics.

## Timely distribution of meeting agendas and documents

23. The consolidating supervisor and the other college members, which are involved in a college meeting or other college activities, must exchange documents and contributions to working documents well in advance to enable all participants in the college meeting to actively contribute to the discussions.
24. In general, the EBA observed that draft meeting agendas were distributed early, providing college members with sufficient time to provide their comments and suggestions for the final agendas.
25. However, there is room for improvement in some colleges to ensure that the other meeting documents are circulated in a timely manner. In particular, the draft group risk/liquidity risk assessment reports should be shared in a more timely manner with colleges' members. In one case, the EBA observed that the draft of the group risk assessment report was circulated only 1 day before the meeting. It is considered good practice to ensure that the documents are circulated at least 1 week before the meeting, to give colleges' members sufficient time to review them and to allow attendees to prepare for efficient discussion at the meetings. Although the consolidating supervisors are primarily responsible for the timely distribution of the meeting documents, for some contributions they are dependent on input from the host authorities. It was observed that delays in the distribution of meeting documents were, in a number of cases, caused by late submissions of input by the host authorities. The EBA strongly encourages host authorities to meet deadlines agreed upon for the submissions of documents. This is important for reducing the burden on the consolidating supervisor and for facilitating the smooth running of the process, as well as for true and fair cooperation.

### 2.1.2 Level and quality of colleges' interactions

26. Supervisory colleges represent a structure through which competent authorities can work together by coordinating their supervisory actions to the maximum extent possible to ensure the best performance of their duties. They are a mechanism for the exchange of information between home and host authorities.
27. According to the ITS on the operational functioning of colleges<sup>(8)</sup>, colleges must convene at least one physical meeting per year. In 2018, the vast majority of the closely monitored colleges exceeded this requirement, organising more than one physical meeting per year.
28. Regarding the quality of colleges' interactions, the EBA observed that, in general, the consolidating supervisor facilitated and promoted open, multilateral and in-depth discussions and exchanges of views during the colleges' meetings. Those efforts created a good spirit of cooperation and the level of engagement within the colleges progressively intensified.
29. In particular, the EBA observed that home authorities were open to sharing issues identified at the group level and were receptive to hosts' concerns, while host authorities were active at colleges' meetings, challenging the other college members or using the proximity of the banking groups' management to raise questions. However, there is room for improvement in some of the colleges in which fewer multilateral discussions were observed and in which college members were not really challenging each other or the banking group.
30. In general, in 2018, the EBA observed that appropriate representatives participated from home and host competent authorities, considering topics discussed and objectives pursued. These representatives were able to commit their authorities. However, the EBA also observed that, in some cases, not all of the relevant competent authorities attended the meetings. Third-country authorities, in particular, did not always attend, owing to several reasons (lack of equivalence of confidentiality regimes or inability to attend). This kind of situation — where, for instance, the colleges mainly focus on EU risks, while there are material entities of the group that are located in third countries — might compromise the risk assessment analyses of the considered banking groups and might undermine the decision on capital and liquidity. In such cases, the colleges should further examine the business development and related risks for these material entities to ensure there is a comprehensive understanding of the risk profile of the group.

### 2.1.3 Organisation of the exchanges on the AML/CFT topic

31. Within supervisory colleges, competent authorities are expected to exchange information on the assessment of the risks within the framework of the supervisory review and evaluation process (SREP), including for the purpose of AML/CFT governance and related issues.

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<sup>8</sup> Article 18(4) of Commission Implementing Regulation (EU) 2016/99 of 16 October 2015 on the operational functioning of colleges of supervisors.

32. The AML/CFT competence and the prudential supervisory competence may be assigned to different authorities, as is the case in various Member States, which increases the complexities of ensuring appropriate cooperation and coordination among authorities in a cross-border context.
33. An example of good practice is when dedicated AML/CFT experts from the competent authorities responsible for AML/CFT supervision come together regularly and discuss relevant AML/CFT topics within the framework of an AML expert group or an AML/CFT sub-college (sub-structure). This kind of forum allows for an even deeper technical discussion between experts than the general supervisory colleges and thus facilitates more timely supervisory actions. However, it is crucial that these sub-structures aim for result-oriented and outcome-driven cooperation among all of the authorities involved. It is also crucial that the supervisory colleges be adequately informed on all AML/CFT issues on a regular basis, including on the discussions and conclusions of the AML/CFT sub-structures.
34. The AML/CFT topic was high on the agenda of many colleges monitored by the EBA in 2018 and earlier. Supervisors have conducted various supervisory activities to check the banking groups' compliance with the relevant AML/CFT regulation. The EBA noted that there were in-depth discussions and exchanges on AML/CFT matters in supervisory colleges, where both the consolidating supervisor and the relevant competent authorities shared substantial information on:
  - planned or ongoing supervisory engagements (e.g. inspections, off-site reviews);
  - concerns about banking groups' KYC (know your customer requirements) and AML/CFT practices or identified shortcomings of non-compliance with AML/CFT regulation;
  - proposals for supervisory measures in connection with AML/CFT deficiencies.
35. Supervisory measures that aimed to ensure banking groups' compliance with relevant regulation have jointly been adopted by colleges' members. Some of these measures were qualitative in nature, for example the remediation of various control deficiencies, while others imposed additional own-funds requirements under Pillar 2. In these cases, the EBA observed substantial discussions on the proposals in the colleges' settings and the final measures were the result of intensive and constructive dialogues between competent authorities.
36. While risks arising from potential money laundering and terrorist financing activities were generally assessed under the operational risk category, these concerns always informed the supervisory assessment of the internal governance arrangements. In particular, for some banking groups, the AML/CFT deficiencies highlighted the shortcomings of the compliance function and raised concerns regarding risk management practices, in particular with regard to the local implementation of group policies and with regard to the internal audit function. Considering the increasing importance of AML/CFT, the colleges should ensure that this topic is correctly and systematically taken into account in the group risk assessment reports/SREP reports.

37. The EBA, as part of its aim to promote effective and efficient supervisory activities including the evaluation of risks to which financial institutions are or might be exposed, contributed in 2018 to AML/CFT discussions and, in some cases, called colleges' members attention to possible deficiencies in AML/CFT compliance. Furthermore, the EBA, in cooperation with the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA), developed draft guidelines on the cooperation and information exchange between competent authorities supervising credit and financial institutions for the purposes of AML/CFT <sup>(9)</sup>. These draft guidelines also include provisions on the cooperation between AML/CFT competent authorities and supervisory competent authorities and colleges.

## 2.2 Colleges' deliverables: colleges' group risk/liquidity risk assessment reports and joint decisions

38. For cross-border banking groups, the consolidating supervisor and the competent authorities responsible for the supervision of EU subsidiaries in a Member State must do everything within their power to reach capital joint decision and liquidity joint decision.
39. The capital joint decision must be reached within 4 months after the submission by the consolidating supervisor of a report containing the risk assessment of the group of institutions (the group risk assessment report) to the other relevant competent authorities. The liquidity joint decision must be reached within 1 month after the submission by the consolidating supervisor of a report containing the assessment of the liquidity risk profile of the group of institutions (the liquidity risk assessment report).
40. The group risk assessment report is based on the risk assessment report prepared by the consolidating supervisor on the EU parent institution and the group, as well as on the risk assessment reports on subsidiaries provided by the relevant competent authorities. The liquidity risk assessment report for the group is based on the liquidity risk assessment report prepared by the consolidating supervisor on the EU parent institution and the group, as well as on the liquidity risk assessment reports on subsidiaries provided by the relevant competent authorities.
41. To facilitate the reaching of joint decisions, it is important that the competent authorities involved in the decision-making process engage in a dialogue with each other, in particular before finalising the group risk assessment report and the liquidity risk assessment report, as well as the capital and liquidity joint decisions.
42. Neither the group risk assessment report nor the liquidity risk assessment report should be limited to an aggregation of individual contributions from competent authorities.

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<sup>9</sup> Draft joint guidelines on the cooperation and information exchange for the purposes of Directive (EU) 2015/849 between competent authorities supervising credit and financial institutions, JC/CP/2018/59, 8 November 2018.

43. The joint decisions must be set out in documents containing full reasons, which must be provided to the EU parent institution by the consolidating supervisor. They must be updated on an annual basis.

### 2.2.1 Group risk assessment reports

44. The consolidating supervisor and the relevant members of the college need to exchange all of the information necessary, at both the individual and the consolidated levels, to reach a joint decision on capital. In particular, they need to exchange information on the outcome of the SREP.
45. The EBA has examined the group risk assessment reports related to the closely monitored colleges. The analysis presented below focuses on some of the SREP elements: the business model analysis, internal governance arrangements and the review of the internal capital adequacy assessment process (ICAAP).

#### a. Business model analysis

46. The group risk assessment reports must contain a section giving an overview of key aspects of the assessment of the banking groups' business model and strategy. This section is expected to provide the following elements:
  - a description of the evolution of the business model, strategy and financial position of the banking group since the submission of the previous group risk assessment report;
  - a supervisory assessment of the viability of the banking group's business model and of the sustainability of its strategy;
  - any supervisory measures, where appropriate.
47. For the closely monitored colleges, the EBA has examined the section of the group risk assessment reports dedicated to the business model analysis. The main findings, progress achieved and examples of good practice are listed below.
48. Some reports provide an overall assessment of the viability and sustainability of the banking group's business model and strategy in an introductory paragraph, specifying the following aspects:
  - whether or not, and if so how, the business model and strategy have evolved over the last 12 months;
  - the key strengths and vulnerabilities identified for the banking group.
49. Some reports adopt the same structure as that set out in the 'EBA SREP Guidelines', starting with a preliminary assessment (for identifying the major markets or geographies in which the banking group operates, its most material business/product lines and its most significant subsidiaries and branches), followed by the assessments of the business environment, strategy and financial plans, the viability of the business model and the sustainability of the strategy,

ending with the list of key vulnerabilities identified in the banking group's business model and strategy.

50. Most reports provide an assessment of the banking group's track record in adhering to the forecasts, goals or targets set in the previous strategies or business plans.
51. However, the EBA has also identified several areas for improvement as, for some reports, the elements provided in this section are sometimes not sufficient and do not always enable readers to form a thorough opinion on (i) the viability of the business model and (ii) the sustainability of the strategy, by reading only the report.
52. Consequently, these reports would need to be enhanced. Based on an examination of the reports of several closely monitored colleges, the EBA has identified a list of information that needs to be mentioned. This might be deemed to be the minimum information required in all of the reports and it would be beneficial for other colleges to include this information.

#### **Viability of the business model**

53. Some reports describe the existing banking groups' business models by presenting their various strengths and demonstrating how the identified strengths will continue helping the banking group to generate profits over the next 12 months. In a constantly evolving business environment, some strengths might lose their relevance quickly. Consequently, a good performance based on a specific strength will not automatically lead to a similar performance in the future, owing to macro-economic trends, market trends or changes in the competitive landscape.
54. Some reports specify the areas in which the banking group would have a competitive advantage over its peers. They describe the success drivers of the business model compared with those of its peers or the factors influencing the success of the business model of the banking group. Some reports specify the major markets or geographies in which the banking group operates, its most material business/product lines and its most significant subsidiaries and branches.
55. Some reports mention significant risk factors, significant threats or material vulnerabilities (such as a low interest rate environment, the possibility of a hard Brexit or economic slow-down) and list evidence illustrating the potential impact of these factors on the structure, profit and loss, and balance sheet of the banking group. For instance, where a hard Brexit is considered as a high risk factor for a banking group, it has been deemed as particularly helpful to obtain evidence of the potential volume of assets affected, the expected additional operational costs or the possible consequences for the structure of the group. The same observations can be drawn for the strengths identified. When the loyalty of customers is considered as a key success driver, it is particularly relevant to obtain evidence of the strength of the relationship between the banking group and its customers.



56. Some reports mention whether or not supervisory measures have been taken to address deficiencies identified in business models and others specify whether or not, and if so to what extent, the business model has been subject to material changes since the submission of the previous year's report.

### **Sustainability of the strategy**

57. Some reports provide relevant/sufficient evidence demonstrating that the strategy of a banking group is sustainable enough to generate profits over the next 3 years. This evidence proves that competent authorities have carried out a critical assessment of the forecasts and assumptions made by the banking group in question.
58. Some reports provide relevant/sufficient evidence to demonstrate whether or not, and if so to what extent, the banking group's strategy will be sustainable enough to enable it to overcome the threats identified or the expected changes in the business environment (e.g. digitalisation). In particular, it is interesting to know whether or not the strategy of a banking group would enable it to more successfully overcome the threats or expected changes than its peers (which are expected to be exposed to the same threats and changes). Some reports clearly specify the possible constraints (e.g. information technology (IT) infrastructure, budget) on the ability of the banking group to implement its strategy, accompanied by evidence describing the expected impact of the strategy on the banking group's risk profile, regulatory own funds, profitability or funding positions.

### **b. Internal governance arrangements**

59. The group risk assessment reports must contain a section dedicated to internal governance arrangements.
60. For the closely monitored colleges, the EBA has examined the section of the group risk assessment reports dedicated to internal governance arrangements. The main findings, progress achieved and examples of good practice are listed below.
61. A good degree of progress has been observed by the EBA in this matter. However, there are areas for improvement and, in some reports, the section dedicated to internal governance arrangements would need to be enhanced to enable readers to form a thorough opinion on this topic by reading only the report. Based on an examination of the reports of several closely monitored colleges, the EBA has identified a list of information that needs to be mentioned. This might be deemed to be the minimum information required in all of the reports and it would be beneficial for other colleges to include this information.
62. Some reports include the outcomes of all the assessments of governance arrangements to be made within the SREP, which ensures that it is clear that all of the governance elements specified in the EBA's SREP Guidelines have been assessed.
63. In particular, some reports provide information on the evolution of the internal governance framework within the observed period, issues of non-compliance with the CRR and CRD IV

requirements, and the relevant supervisory measures taken. More widely, it is crucial that the findings identified in the previous reports that still persist be described, as persistent deficiencies should lead, in principle, to a worse SREP score.

64. Moreover, it appears that the level of detail of the information provided on the assessments made varies as well. In general, the reports list the identified deficiencies, albeit not always following the list of assessment criteria in the EBA's SREP Guidelines. A few reports provide relevant/sufficient information on all of the elements to be assessed (in particular regarding the risk culture, the recovery planning or the diversity within the management body) and specify the timeline over which the improvements will be made or over which actions will be taken to remedy findings.
65. In general, the reports contain scores, but it would be helpful to systematically give explanations on the evolution of the scores compared with the previous assessment. Moreover, it must be highlighted that in only a few cases, a score is applied separately to every area of assessment of internal governance arrangements.
66. Some reports provide helpful information as charts depicting the structure of the group, its corporate governance and reporting lines within the governance and control frameworks.
67. Among the examples of best practice, the EBA has identified one particularly well-structured report that clearly signposts all of the assessment criteria from the EBA's SREP Guidelines and that include a thorough analysis (in particular of the current state, outlook, deficiencies and supervisory actions) in separate sub-sections providing a sufficiently high degree of detail. This makes the analysis easy to follow as a standalone document without the need to refer to any additional documents (e.g. on-site reports, internal supervisory notes or institutions' documents), as these might not be readily available to all college members when preparing for the college discussions of the group risk assessment report.
68. The main observations of the assessment of institutions' internal governance arrangements completed by colleges of supervisors are summarised below.
69. In general, remuneration policies and practices are assessed as sound, but there are some areas for improvements (e.g. the link between remuneration and strategy, links to individual performances and the decision-making process on the remuneration policy).
70. Most observations concern weaknesses in the internal control framework that could lead to increased risks for the banking groups (e.g. AML and IT risks). In particular, there is still room for improvement with regard to the effectiveness of the second and third lines of defence and the compliance function in some institutions. Internal audit is an area of increased supervisory attention. The enhanced focus on that area is mostly due to observed staffing issues, low quality of the performed tasks and insufficient independence of the internal audit function in some institutions.

71. A few competent authorities paid explicit attention to how the recovery planning is governed, which was considered helpful. They mention issues regarding recovery planning in the internal governance part. Identified deficiencies are mostly non-material and can be addressed in the next cycle of recovery planning. For some banking groups, material shortcomings exist and these are followed up by the competent authorities. However, the supervisory measures are not always mentioned in the internal governance section of the group risk assessment report as set out in the EBA's SREP Guidelines.
72. Many colleges' assessments focus on outsourcing arrangements. In such cases, the findings were related to deficiencies in the governance, documentation, reporting and management of outsourcing arrangements.

**c. ICAAP review**

73. The group risk assessment reports must contain a section dedicated to the review of the banking groups' ICAAP frameworks. This section is expected to provide:
- a summary of the findings identified by supervisors when assessing the reliability of a banking group's ICAAP framework, risk quantifications and allocation of internal capital;
  - a description of the evolution of the ICAAP framework since the previous report;
  - a description of the deficiencies identified by supervisors and the issues of non-compliance with the ICAAP-related rules set out in the CRR and CRD IV;
  - a description of the mitigating actions to be taken by the banking group and the measures taken by supervisors to address the deficiencies and non-compliance issues;
  - a statement on whether or not ICAAP estimates are considered reliable and could be used in the assessment of capital adequacy.
74. For the closely monitored colleges, the EBA has examined the section of the group risk assessment reports dedicated to the ICAAP review. The main findings, progress achieved and examples of good practice are listed below.
75. Some reports provide an overall assessment of the ICAAP framework in an introductory paragraph, giving a generic grade (e.g. weak, globally adequate or adequate) and specifying:
- whether or not, and if so to what extent, the ICAAP estimates provided by the banking group are deemed sufficiently reliable to be used in the determination of Pillar 2 capital add-ons;
  - whether or not the banking group's ICAAP framework is deemed to be sound, effective and comprehensive (i.e. whether or not it is sufficiently integrated into the banking group's governance, decision-making processes, risk management and internal control frameworks; whether or not there are sound internal controls, validation and independent reviews; whether or not the risk identification, measurement and aggregation are sufficiently sound; whether or not the

documentation is updated and complete; whether or not data and IT infrastructures are of good quality, etc.).

76. Some reports provide the general features of the ICAAP framework, such as the time horizon, confidence level, treatment of inter-risk diversification effects and definition of own funds used as internal capital, and the list of entities of the banking group subject to a stand-alone ICAAP and covered by the ICAAP framework at the consolidated level.
77. Some reports include a table, giving an overview of the estimated internal capital for each material and relevant risk type over at least the last 2 years.
78. Some reports incorporate the elements of the ICAAP review related to a specific risk (e.g. credit risk) into the section of the report dedicated to this risk.
79. Some reports include a comparison between the regulatory capital requirements and the internal capital needs as determined by the banking group and explain the possible differences (e.g. owing to the use of a more conservative confidence level), which in turn helps identify possible underestimation or overestimation.
80. Some reports specify whether or not the banking group complies with the EBA's guidelines on the ICAAP and internal liquidity adequacy assessment process (ILAAP) information collected for SREP purposes.
81. However, the EBA has also identified areas for improvement. In some reports, the section dedicated to ICAAP review would need to be enhanced to enable readers to form a thorough opinion on this topic by reading only the report. Based on an examination of the reports of several closely monitored colleges, the EBA has identified a list of information that needs to be mentioned. This might be deemed to be the minimum information required in all of the reports and it would be beneficial for other colleges to include this information.
82. Some reports provide conclusions on the reliability of the ICAAP calculations provided by the banking group and specify the elements justifying the assessment of their reliability. Some reports provide sufficient/relevant information to help readers get a good view on the soundness, effectiveness and comprehensiveness of the ICAAP frameworks, in particular as regards the following aspects:
  - the use of the ICAAP in decision-making and management processes at all levels of the banking group;
  - the soundness of the methodologies, policies, processes, assumptions, models, parameters or data used for determining the level of internal capital and allocating it among the various business lines or entities of the banking group;
  - the coverage and homogeneity of the ICAAP framework throughout the banking group.

83. Some reports highlight the deficiencies, weaknesses or other shortcomings identified in the banking group's ICAAP framework or confirm the absence of any deficiencies (which would in turn help ensure that the absence of deficiencies does not result from any omissions). Some reports mention the deficiencies identified and specify their materiality, which allows their importance or relevance to be appreciated when assessing the soundness, effectiveness and comprehensiveness of the ICAAP framework or assessing the reliability of the ICAAP estimates provided by the banking group.
84. Some reports describe the mitigating actions to be taken by the banking group or the supervisory measures to address the deficiencies identified. Others specify whether or not the ICAAP framework has been subject to material changes since the submission of the previous year's report.

### 2.2.2 Liquidity risk assessment reports

85. The consolidating supervisor and the relevant members of the college need to exchange all of the information necessary, at both the individual and consolidated levels, to reach a joint decision on liquidity. In particular, they need to exchange information on the outcome of the SREP as regards the institution's liquidity and funding risks and management, the liquidity adequacy assessment and any proposed quantitative and qualitative measures.
86. The EBA has examined the liquidity risk assessment reports for the closely monitored colleges. The main findings, examples of good practice and areas for improvement are listed below.
87. The group liquidity risk assessment report is a core document enabling competent authorities to understand and record the assessment of the overall liquidity risk profile of a banking group. Common templates should be used for the liquidity risk assessment report to present the overall liquidity risk assessment of the group in a consistent manner, to support meaningful discussions among competent authorities and to enable a robust assessment of cross-border banking group risks. The EBA observed that the common templates, annexed to the ITS on the joint decisions for institution-specific requirements (<sup>10</sup>), are generally used in colleges, although to different extents and with varying levels of detail.
88. While the group liquidity risk assessment reports differ in terms of detail across colleges and across competent authorities, in general they provide a good reflection of the outcome of the supervisory assessments. Those that proved to be very informative and comprehensive had the following characteristics: (i) they captured not only the backward-looking assessment, but also the forward-looking views on the evolution of the liquidity and funding risk profile and (ii)

<sup>10</sup> Commission Implementing Regulation (EU) No 710/2014 on the joint decision process for institution-specific prudential requirements includes, in Annex V, the (individual) liquidity risk assessment report template (complemented by tables in Annex VI for the liquidity and funding risk scores and proposed quantitative and qualitative measures) and, in Annex VII, the (group) liquidity risk assessment report template (complemented by a table in Annex VIII for the summary of the liquidity and funding risk scores and proposed quantitative and qualitative measures).

<sup>11</sup> <https://eba.europa.eu/regulation-and-policy/colleges-of-supervisors/draft-implementing-technical-standards-on-joint-decisions-on-institution-specific-prudential-requirements>

they included distinctive conclusions on the risks and vulnerabilities, as well as the control framework. The area in which more detail would have been useful in some of the liquidity risk assessment reports is the supervisory assessment of the credit institutions' liquidity stress testing.

89. An example of good practice observed in some colleges was the sharing of the institutions' ILAAP documents, in addition to the group liquidity risk assessment report.
90. In principle, the group liquidity risk assessment report should not be limited to an aggregation of individual contributions from competent authorities. The report should be used as a tool for performing the joint assessment of the liquidity and funding risks of the whole group and analysing the interaction of intra-group items. The EBA observed that there was room for improvement in this area, as, despite the discussions on the liquidity risk assessment in the college context, the liquidity risk assessment reports tended to simply compile the findings and assessments of the individual competent authorities and did not always provide a real joint assessment of the group-wide liquidity risk.
91. The main observations of the assessment on the liquidity risk assessment reports done by the colleges of supervisors can be summarised as follows.
92. In the liquidity risk assessment reports, progress was noted in a number of areas as regards the liquidity risk management of the institutions, mainly in (i) the risk appetite framework, (ii) the intra-day liquidity framework (although with room for further improvement) and (iii) the internal controls framework.
93. Some of the main issues highlighted in the liquidity risk assessment reports and in subsequent discussions in the colleges context were related to (i) the concentration risk of the liquidity buffer in terms of types of instruments and issuers, (ii) the internal steering of liquidity risk in significant currencies, (iii) the forecasting of the development of liquidity requirements in view of potential non-compliance with the Liquidity Coverage Ratio and related timely due communication, (iv) the robustness of the infrastructure for liquidity data and reporting and (v) the short-term wholesale funding dependency.

### 2.2.3 Joint decisions on capital and on liquidity

94. For cross-border groups, the consolidating supervisor and the competent authorities responsible for the supervision of subsidiaries of an EU parent institution need to reach capital and liquidity joint decisions on matters referred to in Article 113(1) of CRD IV<sup>(11)</sup>.
95. The consolidating supervisor and the competent authorities need to reach a joint decision on capital within 4 months after the submission of the final group risk assessment report by the consolidating supervisor to the other college members. They also need to reach a joint decision

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<sup>12</sup> The liquidity joint decisions must be taken by the consolidating supervisor and the competent authorities responsible for the supervision of subsidiaries of an EU parent institution, an EU parent financial holding company or an EU parent mixed financial holding company in a Member State.

on liquidity within 1 month after the submission of the final liquidity risk assessment report of the group. Both capital and liquidity joint decisions must be updated on an annual basis. Capital and liquidity joint decisions need to be communicated to the EU parent institutions and their subsidiaries (for the parts of the decisions that are relevant to them). The joint decisions should be fully reasoned.

96. Timely and realistic planning for the joint decision process is essential. Before the start of joint decision process, college members should agree on a timetable of steps to be followed. The EBA has observed that there is a widespread practice in colleges of establishing and sharing timetables for the preparation of the joint decisions. The process of planning the joint decision cycle and its implementation has been developed considerably over the past years.
97. The statutory timeframe for reaching the liquidity joint decision as foreseen in CRD IV is considerably stricter than that for the capital joint decision (1 month compared with 4 months), which could explain the challenges faced by some colleges in securing the final joint decision within this timeframe.
98. To facilitate the decision-making process, it is important that college members are engaged in a dialogue with each other, in particular before finalising the capital and liquidity joint decisions. In general, the dialogue between college members takes place in a multilateral setting, which facilitates the discussions and the reaching of agreements on the proposed capital and liquidity joint decisions.
99. The ITS on the joint decisions for institution-specific requirements sets out all the items that need to be included in fully reasoned capital and liquidity joint decisions <sup>(12)</sup>.
  - One of the items that needs to be included is clear conclusions on the capital adequacy and liquidity adequacy for the group at the consolidated level and for each institution within the group at the individual level. In general, the EBA has observed that the liquidity joint decisions were satisfactory on this point.
  - The capital joint decisions also need to include the conclusions on the level of own funds that the group is required to hold at the consolidated level and that each institution within the group is required to hold at the individual level. In general, the EBA has observed that the capital joint decisions were satisfactory on this point.
  - The liquidity joint decisions also need to include the conclusions on measures taken to address any significant matters and material findings relating to liquidity supervision for the group and each individual entity.
  - Liquidity measures included in the liquidity joint decisions were mostly qualitative measures. The measures mainly related to (i) the measurement and monitoring of the

<sup>13</sup> Articles 10 and 11 of Commission Implementing Regulation (EU) No 710/2014 on the joint decision process for institution-specific prudential requirements.

<sup>14</sup> <https://eba.europa.eu/regulation-and-policy/colleges-of-supervisors/draft-implementing-technical-standards-on-joint-decisions-on-institution-specific-prudential-requirements>

funding concentration risk in line with the bank's appetite, (ii) the aligning of liquidity stress testing to the bank's liquidity tolerance and profile, (iii) the management and monitoring of intra-day liquidity risk and (iv) granular regular reporting on the contractual flows ('maturity ladder') per region.

100. However, in general, the reasoning for liquidity joint decisions was not as robust as the reasoning for capital joint decisions, and the level of detail of the rationale varied. In some of the liquidity joint decisions, the link between the outcome of the liquidity risk assessment and the decision on whether or not to apply liquidity measures was not clear, particularly for individual entities that received an overall liquidity score of 3 and for which no liquidity measures were proposed.

## 2.3 Colleges' deliverables: colleges' joint decisions on GRPs

101. According to the Bank Recovery and Resolution Directive (BRRD)<sup>(13)</sup>, for a cross-border banking group, the consolidating supervisor and the competent authorities of subsidiaries must endeavour to reach a joint decision on the assessment of the GRP covering a parent undertaking and its material subsidiaries.

102. The key steps in the cycle for assessing a GRP and reaching a joint decision on that GRP are:

- annual<sup>(14)</sup> submission of an updated GRP by the parent undertaking to a consolidating supervisor;
- transmission by the consolidating supervisor of the GRP to competent authorities of subsidiaries and relevant resolution authorities (usually, the consolidating supervisor simultaneously also circulates its preliminary assessment of the plan);
- discussion on the preliminary assessment of the GRP and on the draft joint decision by the college of supervisors and finalisation of these documents;
- reaching the joint decision on the GRP by the college of supervisors.

103. In 2018, the EBA observed that the process of reaching joint decisions on the GRPs was well structured and transparent. The consolidating supervisors clearly communicated the timeline<sup>(15)</sup> for the joint decision process to host authorities, and the EBA has not identified any material issues regarding the process of reaching joint decisions. For the main banking groups, the discussions on the assessment of the GRPs took place during a dedicated college meeting or a conference call.

<sup>15</sup> Directive 2014/59/EU.

<sup>16</sup> Unless there are material deficiencies identified and a revised version of the recovery plan is requested before the standard annual update cycle.

<sup>17</sup> The BRRD establishes two deadlines for competent authorities for assessing a recovery plan and reaching a joint decision on a GRP. According to Article 6 of the BRRD, supervisory assessment of any recovery plan should be done within 6 months of its submission by the institution. Moreover, pursuant to Article 8 of the BRRD, the joint decision on the GRP should be reached within 4 months after the consolidating supervisor shares the plan with relevant competent authorities (in accordance with Article 7(3) of the BRRD).



104. According to the BRRD, the consolidating supervisor must consult competent authorities of significant branches, insofar as is relevant to the significant branch. Moreover, the recovery plan must also be sent to the resolution authority, which may examine it with a view to identifying any actions that may adversely affect the resolvability of the institution and making recommendations to the competent authority on those matters. In general, the EBA has observed that the group-level resolution authorities and the competent authorities of significant branches have been invited to participate in the college activities related to the recovery plans, even though they were not signing the joint decisions.
105. Pursuant to Article 8(2) of the BRRD, a joint decision on a GRP should cover the following aspects:
- an assessment of the GRP (including identification of material and non-material deficiencies);
  - application of the measures set out in Article 6(5-6) of the BRRD to address material deficiencies in the GRP;
  - whether or not individual recovery plans should be drawn up for the subsidiaries.
106. In 2018, the EBA observed that, in general, the joint decisions were based on comprehensive assessments of the GRPs by the colleges of supervisors. They noticed advancements in the GRPs compared with previous versions. However, they also identified room for further improvement, especially with regard to their operationalisation. In that respect, the colleges encouraged the banking groups to prepare playbooks and/or to conduct dry-run/fire drill exercises to test particular parts of the recovery plans.
107. In the vast majority of the banking groups, the deficiencies identified in the GRPs were not considered as material, within the meaning of Article 6(5) of the BRRD. In only a couple of cases did the competent authorities identify material deficiencies and, in these cases, they requested that the banking groups resubmit the plan within 2-3 months or provide a description of how the material deficiencies are being addressed. None of the competent authorities decided to ask an institution whose recovery plans had material deficiencies to apply the measures specified in Article 6 (5-6) of the BRRD.
108. It should be noted that, following the publication in November 2017 of the EBA recommendation on the coverage of entities in a GRP (EBA/REC/2017/02), some improvements have been identified in this area, especially for the joint decisions on GRPs submitted in 2018. Nevertheless, several joint decisions included supervisory requests to further improve the extent to which material subsidiaries and/or branches are covered in the GRPs.
109. For some banking groups, the 2018 joint decision included a request for individual recovery plans (mainly for subsidiaries identified as 'other systemically important institutions' in host Member States). However, the EBA also observed a case in which competent authorities noted in the joint decision that next year individual recovery plans would be integrated into the GRP.

## 2.4 Key topics for supervisory attention in 2018

110. The '2018 EBA Colleges Action Plan', which was annexed to the 2017 report on supervisory colleges, included the key tasks for supervisory colleges, the EBA approach for college monitoring in 2018 and a list of key topics for supervisory attention in 2018.

111. The EBA identifies such key topics on the basis of various sources, mainly on:

- the EBA work on risks and vulnerabilities that identify risks that pose major threats to the EU cross-border institutions and thus represent significant concerns for the EU supervisory authorities;
- the monitoring of new regulatory developments. The outcomes of relevant EBA policy work also supplement the process of identifying key topics for supervisory attention;
- the findings from the monitoring of supervisory colleges in the course of the previous year. Through its participation in colleges, the EBA collects valuable information on an institution-by-institution basis, the aggregation of which helps the EBA to identify key areas of concern and for attention in future supervisory work.

112. By communicating these key topics, the EBA ensures that the risks that are identified at the macro level are cascaded through college structures to the micro level in a consistent manner across all colleges; it also ensures that appropriate attention is dedicated to these areas of concern.

113. Competent authorities supervising cross-border banking groups were asked to pay particular attention to these topics in 2018 and to organise relevant discussions within the supervisory colleges' framework. Considering that all of topics listed were not necessarily equally relevant for all of the credit institutions, the EBA expected the colleges to discuss their relevance early on and to include the agreed-upon priorities in the college SEP, so as to embed the relevant ones in college work in 2018 (college discussion, joint activity, on-site activity, off-site activity, etc.).

### List of key topics for supervisory attention in 2018

114. The main expectations regarding each topic are outlined below (for a full picture, see '2018 EBA Colleges Action Plan' annexed to the 2017 report on supervisory colleges <sup>(16)</sup>).

115. **Non-performing loan (NPL) cleaning:** competent authorities were expected, in particular, to focus on ongoing balance sheet cleaning and active management of NPL portfolios, in addition to the SREP and joint decision discussions, which address credit risk in general. Competent authorities were also expected to explore the NPL workout framework and practices across

<sup>18</sup> <https://eba.europa.eu/documents/10180/2159826/Report+on+colleges+functioning+2017.pdf/cde45674-1718-43dc-b22e-8fe7f7157186>

group entities, and the justification for differences in the coverage of NPLs across different jurisdictions.

116. **Business model and profitability:** competent authorities were asked, in particular, to pay attention to the viability and sustainability of institutions' business models and to assess whether or not they are able to generate acceptable returns, considering that many factors create challenges, such as protracted low interest rates or the effect of financial innovation (FinTech) and emerging new technologies/products.
117. **Information technology (IT) risk and operational resilience:** competent authorities were expected to pay particular attention to the risks related to cybercrime and information security risk, connectivity and outsourcing to third-party providers, outdated technology environments and the adoption of FinTech. Competent authorities were also expected to examine the operational resilience of the institutions and how well their business activities and supporting services are designed to adapt to failures in any part of their infrastructure.
118. **Internal governance:** competent authorities were advised to closely monitor the risk that deficiencies in the internal governance arrangements and institution-wide control framework pose to an institution's viability. Competent authorities were expected to ensure, in particular, that the ultimate oversight exercised by the board is adequate and that institutions dedicate enough attention to bringing their data quality and risk data aggregation capabilities in line with Basel Committee on Banking Supervision (BCBS) standard 239.
119. **Brexit:** competent authorities were expected, in particular, to look into the ways that individual banks might be affected by the UK's withdrawal from the EU and the surrounding uncertainties, one of which being the legal uncertainty regarding the continuity of contracts in the event of a cliff-edge scenario. Competent authorities were expected to ensure that banks mitigate these uncertainties by contingency planning.
120. **Structural changes:** competent authorities were expected to make sure that institutions have appropriate arrangements in place to implement structural changes without posing additional risk to the viability of the institution. Those structural changes are related, for instance, to various mergers and acquisitions activities undertaken in 2016-2017 in the EU banking sector.
121. **International Financial Reporting Standards (IFRS) 9:** competent authorities were expected, in particular, to assess the impacts of the introduction of IFRS 9 requirements, the main impact relating to the IFRS requirements for expected credit losses, which should lead to earlier recognition of credit losses, affecting more financial assets and at a higher amount.

#### **Main outcomes**

122. The monitoring of colleges of supervisors for the most significant cross-border European banking groups (i.e. the 'closely monitored colleges') is an ongoing activity performed throughout the year by the EBA. The EBA follows up on how far these colleges incorporated

the key topics into their yearly work. The main outcomes identified below are based on the information obtained through EBA participation in the colleges of supervisors.

123. The EBA monitoring of the 2018 key topics shows that, in general, all of these topics have been taken into account in the colleges' works in 2018. The full set of topics has not necessarily been discussed during the supervisory colleges' meetings but, in general, they have been subject to supervisory activities (mostly off-site activities, but also on-site activities) and have been embedded in college works through, at least, the SREP assessment as set out in the group risk assessment reports. However, these reports do not always provide a sufficiently detailed analysis of these topics.
124. The interest granted to each of these topics has not been homogenous across the colleges.
125. For a few banking groups, some topics have been deemed to be not relevant by their colleges. For instance, the topic concerning structural changes has often been disregarded, as no material change to the group structures was planned. Other topics, such as IFRS 9, have not drawn the attention of the colleges, one of the reasons being the low negative effect of the application of IFRS 9 on regulatory own funds.
126. On the contrary, other topics, such as IT risk and operational resilience, have often been considered as key points of attention. This topic is closely monitored by competent authorities through, in particular, in-depth reviews or on-site examinations. The heterogeneous and complex IT infrastructures of the banking groups, the IT obsolescence, the increasing use of outsourcing and the digitalisation strategy all lead to increasing IT risks, with major incidents being detected. This poses many challenges for the banking groups in terms of IT security, in particular cybersecurity, risk management and operational resilience.
127. Internal governance also presents various challenges and remains an area in which further improvements are required. The risk management frameworks present weaknesses regarding insufficient risk data aggregation capabilities. This situation is mainly due to inadequate management information systems, which are impaired, for instance, by data-quality issues and fragmented IT and reporting systems. Areas for improvement have also been identified in the ultimate oversight exercised by the board, as well as in the internal control functions, which are not always able to challenge the business units. Some banking groups also have a lack of general management for outsourcing, which is a concern given the increase in outsourcing activities.
128. Another area gaining attention is the topic of business model and profitability. Banking groups have to face headwinds due, in particular, to the protracted low interest rate environment and so have implemented strategies to adapt their business model and improve their efficiency, such as cost-cutting plans, digitalisation projects and recourse to outsourcing. Competent authorities paid particular attention to the implementation of these strategies, to their efficiency in structurally improving the cost base of the banks and to the maintenance of a strong control framework despite cost-cutting measures.

129. The challenges posed by Brexit form another area of supervisory concern, with some shortcomings observed in the preparation for this unprecedented situation in the EU. In general, competent authorities were particularly attentive to the degree of preparation of the banking groups regarding (i) access to the financial market infrastructures / central counterparty clearing houses, (ii) contract continuity, (iii) data transfer and (iv) funding. One of the key points of attention in this area is the continuity of access / the dependence to UK central counterparty clearing houses.

130. NPL cleaning remains a standard topic. In particular, the issue of NPL cleaning was most discussed at the level of the subsidiaries in view of their particular local situation, especially when they were faced with high levels of NPLs and decreasing coverage. Whereas credit risk and NPLs are always included in risk assessments and the related college discussions, high NPLs and NPL cleaning were generally less prominent in these discussions at the group level for large banking groups in view of their diversified credit risk profile and global footprint.

#### **Good practice**

131. For some colleges, a detailed assessment of the relevance of each key topic for the banking group has been provided. During the college meetings, a presentation of the main/relevant key topics has been completed by both the competent authorities and the banking groups themselves.

## 3 EBA tools for supporting supervisory colleges

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### 3.1 EBA tool for the secure exchange of information

132. According to Article 21 of the EBA founding regulation <sup>(17)</sup>, the EBA ‘may collect and share all relevant information in cooperation with the competent authorities in order to facilitate the work of the college and establish and manage a central system to make such information accessible to the competent authorities in the college’.

133. In this context, the EBA has developed a collaboration site, with the following objectives:

- to share non-confidential information between colleges, such as the EBA’s Binding Technical Standards (BTS), guidelines and other deliverables that are of interest to all of the supervisors involved in colleges of supervisors. The EBA workspace in the tool was designed for this purpose. This workspace also contains an updated calendar showing future colleges’ meetings that have been scheduled by the competent authorities;
- to act as a hub for those colleges that want to use the EBA IT tool as their secure website to share and exchange information between colleges’ members and to store information in a secure way. Each national authority that uses this platform as their colleges’ website has their own workspace, accessible only to colleges’ members.

134. The EBA tool has been created as a collaboration site in Microsoft Office SharePoint 2007.

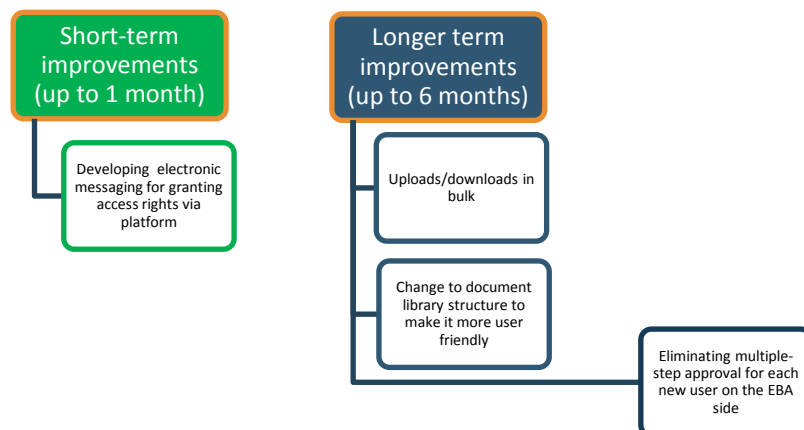
135. Taking into account the feedback and the proposals for improvements received from users regarding the functionalities of this tool, the EBA has decided to upgrade and modernise it in 2019.

136. In 2019, the EBA plans to migrate to a newer SharePoint version and make the tool more user friendly. As shown in Figure 2, the implementation of certain improvements will be completed over a short time scale (up to 1 month), while other improvements will take more time (up to 6 months).

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<sup>19</sup> Regulation (EU) No 1093/2010 of the European Parliament and of the Council establishing a European Supervisory Authority (European Banking Authority).

- Figure 2: Implementation in 2019 of improvements to the EBA collaboration tool



The EBA invites the colleges that are still relying on secure email for exchanging confidential information to join the EBA collaboration tool.

### 3.2 EBA recommendation on the equivalence of confidentiality regimes

137. To facilitate the work of colleges and, in particular, the participation of third-country supervisory authorities in EEA supervisory colleges, the EBA issued a recommendation on the equivalence of confidentiality regimes. According to Article 116(6) of CRD IV, third-country supervisory authorities may participate in EEA supervisory colleges only if their confidentiality regime is assessed as equivalent to the requirements laid down in CRD IV.

138. To facilitate the consistent participation of third-country supervisory authorities in supervisory colleges and improve cross-border cooperation, in 2018, the EBA continued to assess the equivalence of the professional secrecy and confidentiality regimes of a number of non-EU supervisory authorities.

139. The assessment aims to enable the competent authorities participating in a college of supervisors to form their opinion on the equivalence of confidentiality regime of third countries' supervisory authorities as referred to in Article 116 (6) of CRD IV.

140. To date, 38 authorities from 22 countries have been assessed as equivalent with respect to their confidentiality regimes and professional secrecy requirements.

141. The outcome of the assessment work is published under the form of an EBA recommendation <sup>(18)</sup>. This recommendation aims to ensure consistency in the assessment of third-country authorities' professional secrecy provisions between different EU supervisors and supervisory college members, and to eliminate inconsistency in approaches, which could

<sup>20</sup> <https://eba.europa.eu/regulation-and-policy/colleges-of-supervisors/recommendation-on-the-equivalence-of-confidentiality-regimes>

result in legal uncertainty and cause practical impediments to the exchange of information and, ultimately, to the efficient, effective and timely operation of supervisory colleges.

142. The EBA recommendation does not provide any form of guidance on the appropriateness of such participation as referred to in Article 116 (6) of CRD IV. This remains to be determined by the college, taking into account the overall structure of the supervised group and the legislation applicable.

143. The assessment carried out by the EBA staff, with the support of experts from competent authorities, seeks to establish whether the legal regime applicable to each third-country supervisory authority:

- contains the notion of confidential information;
- contains specifications on the existence of professional secrecy obligations;
- restricts the use of confidential information;
- establishes restrictions on the transfer of confidential information.



## 4 2019 Colleges' Action Plan

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144. The EBA, as a member of colleges set up for the supervision of cross-border institutions, is tasked with contributing to promoting and monitoring the efficient work of these colleges across the EU. Furthermore, the EBA plays a leading role in ensuring coherence in the application of the *Single Rulebook* among colleges of supervisors, as well as in ensuring their consistent functioning.

145. On a yearly basis, the EBA establishes an action plan for supervisory colleges, providing competent authorities that are responsible for supervising cross-border institutions with a set of objectives and deliverables, in line with the Level-1 and Level-2 provisions. The colleges' action plan is relevant not only to the closely monitored colleges, but also to the non-closely monitored colleges.

146. Importantly, the annual EBA colleges' action plan also sets out the approach to be followed and the activities to be undertaken by the EBA staff in supporting and monitoring colleges, in line with the EBA's statutory mandate.

147. The 2019 *Colleges' Action Plan* outlines:

- the key tasks for supervisory colleges;
- the key topics for supervisory attention, as listed in the 2019 convergence plan;
- the EBA's approach for college monitoring in 2019.

148. In 2019, competent authorities are expected to pay particular attention to the list of colleges set up for EEA banking groups or for third-country banking groups at the EEA sub-consolidated level (see annex), as this list might need to be updated and may change more than usual depending on the implementation of Brexit.

### 4.1 Key tasks for supervisory colleges

149. Supervisory colleges are expected to maintain a good level of cooperation in 2019 and to pursue convergence by ensuring that all tasks required by the relevant legal framework are performed. In particular, colleges of supervisors are to complete the annual joint decision/SREP cycles by conducting the regular supervisory tasks and processes, in line with the Level-1 and Level-2 regulations. Supervisors are expected to organise their efforts and resources to maintain and manage the operational aspects of colleges' work. They are also required to plan and perform a number of supervisory activities in a coordinated manner, which stem from legal requirements aiming to enhance the supervision of cross-border groups.

150. In this context, the main tasks arising for supervisory colleges in 2019 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 ITS on the operational functioning of colleges <sup>(19)</sup>;
- b) considering expanding the list of authorities with observer status in the light of the outcome of the EBA's work on the equivalence assessment of the professional secrecy provisions of non-EU supervisory authorities, following the process envisaged in the Level-1 and Level-2 provisions;
- c) establishing and maintaining the WCCAs (e.g. giving details of the collaboration and interaction with resolution colleges, defining the risk indicators to be exchanged in the college framework and describing the level of cooperation and information exchange with AML/CFT competent authorities and colleges, when they are set up);
- d) organising physical meetings and maintaining ongoing interaction in other forms (e.g. conference calls, emails and written consultations);
- e) adopting an annual college SEP, noting joint and individual supervisory activities, the resources committed from college members and the timing and duration of these activities;
- f) organising and establishing timelines for the joint decision cycles envisaged by CRD IV 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 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 CRD IV and the BRRD (e.g. approving the use of internal models or the determination of a liquidity sub-group).

151. The general principle followed is that the action plan does not set common deadlines applicable across all colleges for the completion of various actions and deliverables; instead, EBA staff follow the specific SREP cycle of individual colleges.

## 4.2 Key topics identified in the 2019 convergence plan

152. For 2019, a convergence plan has been established to assess the degree of convergence in supervisory practices through key topics. The 2019 convergence plan is presented in detail in section 7 of the 2018 report on convergence of supervisory practices, published on 14 March 2019 on the EBA website.

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<sup>21</sup> Commission Implementing Regulation (EU) 2016/99 of 16 October 2015 on the operational functioning of colleges of supervisors.

153. The list of key topics identified in this plan includes (i) internal governance, (ii) IT risk and operational resilience, (iii) non-performing exposures and (iv) the use of benchmarking exercises for internal models.
154. The three first topics, which were already in the list of key topics for supervisory attention in 2018 (see section 2.4 above), are maintained, as they should remain key points of supervisory attention in 2019 and they have been subject to recent EBA policy works with the development of several guidelines.
155. The EBA will review the approach applied by the competent authorities to monitor and assess these key topics <sup>(20)</sup>. It will use the monitoring of supervisory colleges to conduct this review and, depending on its means in 2019, it might also use other convergence tools at its disposal, such as the bilateral convergence visits.
156. Competent authorities supervising cross-border institutions should pay particular attention to these key topics, within the framework of supervisory colleges.
157. These key topics, if relevant for the banking group under consideration, should be embedded in colleges' SEP/work in 2019 (e.g. colleges' discussions, joint activities and on-site and off-site activities) and reflected in colleges' deliverables. The EBA expects an overview presentation to be given, during the colleges' meetings, on how these key topics are or have been embedded in college SEP/work in 2019 and reflected in colleges' deliverables.

### 4.3 The EBA's approach to college monitoring in 2019

158. In 2019, EBA staff will continue to support and monitor college functioning and assist colleges in applying the EBA technical standards and guidelines and other relevant parts of the *Single Rulebook*.
159. The monitoring and assessment of the supervisory colleges (i.e. closely and non-closely monitored colleges) by the EBA will cover, in particular, the following main elements:
- organisational aspects;
  - colleges' interactions;
  - colleges' legal deliverables:
    - group risk/liquidity risk assessment reports;
    - joint decisions on capital and liquidity;
    - joint decisions on the assessment of GRPs.

The EBA will focus its attention on the quality of these deliverables, ensuring that the colleges have done everything within their power to reach joint decisions.

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<sup>22</sup> For some topics, it will be possible to include objective elements in this review.

- key topics listed in the 2019 convergence plan (as mentioned above, the EBA will pay attention to how these key topics have been embedded in colleges' SEP/work in 2019 and reflected in their deliverables).

160. For closely monitored colleges, the EBA staff will continue to undertake monitoring through its active involvement in colleges' activities and, in particular, in colleges' meetings. It will continue to provide feedback to the consolidating supervisor after these meetings, as well as on the colleges' main deliverables (i.e. the group risk/liquidity risk assessment reports and the joint decisions).

161. For non-closely monitored colleges, the EBA will undertake monitoring using self-assessment templates, which enable the EBA to get a good picture of the processes performed in the colleges. The EBA will communicate its general expectations to these colleges and will have the opportunity to engage in a discussion with these colleges should any questions arise.

162. In both cases, the EBA will ensure that it received the colleges' deliverables for the 2019 cycle of supervisory colleges and will ask for the presentations on key topics to be given during the 2019 colleges' meetings, as specified above.

## Annex: 2019 list of supervisory colleges

As part of its role to promote the efficient, effective and consistent functioning of supervisory colleges (as set out in Article 21 of its founding regulation), the EBA, in 2018, undertook a mapping exercise of EEA cross-border banking groups and third-country banking groups present in Members States and of the supervisory colleges that are active for the supervision of these groups. Based on the information provided by competent authorities through this 2018 mapping exercise, the EBA finalised the 2018 list of supervisory colleges that were active in the EEA and selected the colleges that were closely monitored.

For the 2019 cycle of supervisory colleges, the mapping exercise has not been carried out but the list has been updated by the competent authorities and sent to the EBA.

### **2019 list of colleges for EEA banking groups, based on information reported by the competent authorities to the EBA at the end of March 2019**

EEA home country	Name of EEA cross-border banking group
AT	<b>Erste Group*</b>
AT	Addiko Bank
AT	Bausparkasse Wüstenrot AG
AT	HYPO-Bank Burgenland Aktiengesellschaft
AT	Porsche Bank Group
AT	Raiffeisen Bank International AG
BE	<b>KBC*</b>
CZ	J&T Group
DE	<b>Deutsche Bank*</b>
DE	BMW Bank GmbH
DE	Clearstream Financial Holding Group
DE	Commerzbank AG
DE	DZ Bank AG Deutsche Zentral-Genossenschaftsbank
DE	Finanzholding der Sparkasse in Bremen Group
DE	ProCredit Group
DE	Wüstenrot & Württembergische AG

<b>DK</b>	<b>Danske Bank*</b>
<b>DK</b>	Saxo Bank A/S
<b>EL</b>	Alpha Bank, S.A.
<b>EL</b>	Piraeus Bank, S.A.
<b>EL</b>	Eurobank Ergasias, S.A.
<b>EL</b>	National Bank of Greece, S.A.
<b>ES</b>	<b>BBVA*</b>
<b>ES</b>	<b>Grupo Santander*</b>
<b>ES</b>	Banco de Sabadell, S.A.
<b>FI</b>	<b>Nordea*</b>
<b>FR</b>	<b>BNP Paribas*</b>
<b>FR</b>	<b>Société Générale*</b>
<b>FR</b>	Crédit Agricole S.A.
<b>FR</b>	ODDO ET CIE
<b>FR</b>	RCI Banque SA
<b>FR</b>	Verner Investissements
<b>HU</b>	<b>OTP Bank Nyrt*</b>
<b>IE</b>	Allied Irish Banks plc
<b>IE</b>	Bank of Ireland Group plc
<b>IE</b>	DEPFA Bank
<b>IT</b>	<b>UniCredit Group*</b>
<b>IT</b>	Banca Mediolanum SPA
<b>IT</b>	Intesa Sanpaolo SPA
<b>LI</b>	VPB Group
<b>LU</b>	Havilland S.A.
<b>LU</b>	Precision Capital S.A.
<b>LU</b>	Quilvest Wealth Management S.A.
<b>LV</b>	The JSC 'Citadele banka'
<b>NL</b>	ABN AMRO Group N.V.

NL	ING Groep N.V.
NL	Coöperatieve Rabobank
NO	DNB ASA Group
PL	Getin Holding
PT	Banco Comercial Português, SA
PT	Finantipar Group
SE	<b>Skandinaviska Enskilda Banken (SEB)*</b>
SE	Swedbank
SE	Handelsbanken
SI	Nova Ljubljanska banka (NLB)
UK	Barclays Banks Plc
UK	FCE Bank Plc
UK	HSBC Group
UK	Lloyds Banking Group
UK	Schroders plc
UK	Standard Chartered Group
UK	The Royal Bank of Scotland Group
<b>62</b>	<b>Total number of colleges for EEA banking groups</b>

**\*Closely monitored colleges (12 in total).**

**2019 list of EEA colleges for third-country banking groups, based on information reported by the competent authorities to the EBA at the end of March 2019**

Name of third-country banking group
Sberbank Europe
The Bank of New York Mellon
State Street Europe Holdings
Citibank
EFG Bank
Five colleges for third-country banking groups





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