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EBA announces details of 2016 EU-wide stress test

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The European Banking Authority (EBA) published today its 2016 EU-wide stress test draft methodology for discussion. The stress test will be formally launched in the first quarter of 2016 and will cover over 70% of the EU banking sector and will assess EU banks' ability to meet relevant supervisory capital ratios during an adverse economic shock. The results will inform the 2016 Supervisory Review and Evaluation Process (SREP), acting as a challenge to banks' forward looking capital plans. The exercise will also provide market participants with a consistent basis to compare and assess the resilience of EU banks. The list of institutions participating in the exercise is also released today.

Related documents:
- DRAFT 2016 EU-wide ST methodological note [PDF, 1024KB]
- DRAFT 2016 EU-wide ST templates [XLSX, 999KB]

Related links:
- EU-wide stress testing 2016

The EBA informed today that the 2016 EU-wide banking stress test exercise will be carried out at the highest level of consolidation on a sample of banks covering broadly 70% of the banking sector in the EU, as expressed in terms of total consolidated assets as of end 2014. 53 EU banks will participate in the exercise, 39 of which fall under the jurisdiction of the Single Supervisory Mechanism (SSM). No single capital threshold is defined for this exercise as banks will be assessed against relevant supervisory capital ratios under a static balance sheet and the results will inform the 2016 round of Supervisory Review and Evaluation Processes (SREP) under which decisions are made on appropriate capital resources and forward looking capital plans are challenged.

The resilience of EU banks will be assessed against a common macroeconomic baseline and adverse scenario based on year-end 2015 figures, and applied over a period of three years to end-2018. The approach of the exercise is that of constrained bottom-up stress test, where banks will be required to project the impact but subject to strict constraints defined in the common methodology.

The objective of the EU-wide stress test is to provide supervisors, banks and other market participants with a common analytical framework to consistently compare and assess the resilience of the EU banking system to shocks.

Timeline

The 2016 EU-wide stress test will be launched at the end of February 2016 with a publication of the final methodology and templates as well as the scenarios. The outcomes of the exercise, including banks' individual results, are expected to be published at the beginning of Q3 2016. An expedited publication is designed to align the finalisation of the exercise with the cycle of the annual supervisory review and evaluation process (SREP), as this will ensure the results of the stress test are incorporated as an input to that process.

Methodology and templates

Similar to the 2014 exercise, the 2016 EU-wide stress test is primarily focused on the assessment of the impact of risk drivers on the solvency of banks. Banks are required to stress test a common set of risks (credit risk including securitisations, market risk and counterparty credit risk, operational risk including conduct risk). In addition, banks are requested to project the effect of the scenarios on net interest income and to stress P&L and capital items not covered by other risk types. The 2016 exercise adds an explicit treatment of conduct risk and FX lending to its scope. Today's publication of the draft methodology and templates is the starting point for an informal discussion with banks so as to receive their input, which will be taken into account when finalising both documents. Regular discussions with banks will also help prepare for the exercise.

The process

The process for running the 2016 EU-wide stress test involves close cooperation between the EBA, the competent authorities (including the Single Supervisory Mechanism – SSM), the European Central Bank (ECB), the European Systemic Risk Board (ESRB) and the European Commission. Scenarios, methodology, minimum quality assurance guidance and templates are agreed by the EBA's Board of Supervisors in close collaboration with competent authorities. The macroeconomic adverse scenario and any risk type specific shocks linked to the scenario are developed by the ESRB and the ECB in close cooperation with competent authorities, the EBA and the European Commission. The latter will also provide the macroeconomic baseline scenario.

The EBA will coordinate the exercise and will act as the data hub for its final dissemination in line with its commitment to enhancing the transparency of the EU banking sector.

The EBA publishes on an annual basis bank level data, which, this year, will be released on 24 November.

Competent authorities will be responsible for conveying the instructions on completing the exercise to banks and receive information directly from banks, as well as for the quality assurance process (validating banks' data, stress test results based on the bottom-up calculation as well as for reviewing the models applied by banks for this purpose). They will also be responsible for the supervisory reaction function.

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