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Press and Communications

Press release

EBA announces key features of the 2014 EU-wide Stress Test

The European Banking Authority (EBA) announced today the key components of the forthcoming 2014 EU-wide stress test that will be conducted on a wide sample of EU banks. The objective of the EU-wide stress tests is to help supervisors assess the resilience of financial institutions in the European Union to adverse market developments. This exercise aims at ensuring consistency and comparability of the outcomes across all banks based on a common methodology, scenarios and accompanied by a consistent disclosure exercise.

The 2014 EU-wide stress test is designed to provide supervisors, market participants and institutions with consistent data to contrast and compare EU-banks' resilience under adverse market conditions. To this end, the EBA will provide competent authorities (CAs) with a **consistent and comparable methodology**, which will allow them to undertake a rigorous assessment of banks' resilience under stress.

The exercise has been designed also in coordination with the ECB, which in preparation of the Single Supervisory Mechanism (SSM) is conducting a comprehensive assessment comprising of a risk assessment, asset quality review and a stress test.

The EU-wide stress test will be conducted on a **sample of 124 EU banks** which cover at least 50% of each national banking sector, and will be run at the highest level of consolidation. Given its objectives, the 2014 EU-wide stress test will be conducted under the assumption of a **static balance sheet** which implies no new growth and constant business mix and model throughout the time horizon of the exercise.

The resilience of EU banks will be assessed under a period of three years (2014-2016).

Banks will be required to stress a **common set of risks** including: credit risk, market risk, sovereign risk, securitisation and cost of funding. Both trading and banking book assets will be subject to stress, including off-balance sheet exposures. CAs may include additional risks and country-specific sensitivities beyond this common set but the published results should allow understanding the impact of the common set of risks in isolation.

In terms of **capital thresholds**, 8% Common Equity Tier 1 (CET1) will be the capital hurdle rate set for the baseline scenario and 5.5% CET1 for the adverse scenario. The relevant CA may set higher hurdle rates and formally commit to take specific actions on the basis of those higher requirements.

The running of the exercise will involve close cooperation between the EBA and the CAs, including the ECB. In particular, the EBA will be responsible for coordinating the exercise in cooperation with the ECB (in case of SSM countries) and ensuring effective cooperation between home and host supervisors. Furthermore, the EBA will provide pan European benchmarks and will act as a data hub for the final dissemination of the common exercise. On the other hand, CAs will bear responsibility for overseeing the exercise with the banks and checking the quality of the results.

The methodology and scenario are expected to be published in April 2014 and banks' individual results to be released at the end of October.