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Press and Communications

Press release

EBA clarifies use of 2016 EU-wide stress test results in the SREP process

The European Banking Authority (EBA) published today additional information on how the results of the EU-wide stress test will inform the Supervisory Review and Evaluation Process (SREP). The focus of today's update is to explain how additional "capital guidance" can be used as a tool to address the quantitative outcomes of the stress test. Such guidance will not be relevant for the Maximum Distributable Amount (MDA), but will ensure banks' ability to meet applicable capital requirements under stressed conditions. While serving the purpose of helping supervisors manage expectations towards banks and market participants, the information released today does not establish restrictions or constraints on existing supervisory powers.

Andrea Enria, Chairperson of the EBA, said: ". *"In the new regulatory framework it is essential that supervisors provide clarity as to how their requirements could affect the treatment of investors, including possible constraints to payments. The update published today elaborates on the use of stress testing as outlined in the 2014 SREP Guidelines to explain the concept of "capital guidance", with a view to ensuring greater clarity and consistency in the way the results of the stress test would feed into the SREP decisions in 2016"*.

The key points of today's update are the following:

- the 2016 EU-wide stress test does not contain a pass fail threshold and is instead designed to be used as a crucial input into the SREP process in 2016;
- the results of the EU-wide stress test will allow supervisors to assess banks' ability to meet applicable minimum and additional capital requirements under stressed scenarios;
- if Competent Authorities (CAs) identify capital shortfalls leading to potential breaches of applicable own funds requirements revealed by the stress tests, they can employ the capital guidance to address their concerns;

- capital guidance should be set above the level of binding capital (minimum and additional) and the combined buffer requirements, and institutions are expected to take it into account in their risk management frameworks;
- capital guidance does not constitute any form of binding capital requirements and is not expected to trigger the automatic restriction of the distribution and calculation of the maximum distributable amount (MDA);
- CAs will monitor the capital guidance and the way it is integrated into institutions' risk management and capital planning processes.

Note to the editors

- The EU-wide stress test will be conducted on a sample of 51 EU banks covering 70% of the banking sector in the EU and will be run at the highest level of consolidation. The process for running the exercise will involve close cooperation between the EBA and the CAs (including the Single Supervisory Mechanism – SSM), the European Central Bank (ECB), the European Systemic Risk Board (ESRB) and the European Commission (EC).
- The EBA is responsible for coordinating the exercise and will act as a data hub for the final dissemination of the results in line with its commitment to enhancing the transparency of the EU banking sector. CAs will check the quality of the results and decide on any necessary supervisory reaction measure as part of the SREP process.
- The results of the stress test will be published on 29 July 2016.