

Accomplishment of the EBA Colleges Action Plan for 2014 and establishment of the EBA Colleges Action Plan for 2015

Assessment of the Colleges Action Plan for 2014

Promoting and monitoring colleges in 2014

EBA Colleges Action Plan for 2015

Contents

| | |
|---|-----------|
| Abbreviations | 4 |
| Executive summary | 5 |
| 1. Identification of EEA colleges and selection of colleges monitored by the EBA | 8 |
| 1.1 EBA 2014 approach to college monitoring | 8 |
| 1.2 EEA cross-border banking groups | 9 |
| 1.3 Non-EEA cross-border banking groups present in the EEA | 9 |
| 1.4 EBA coverage of colleges | 9 |
| 2. Functioning of closely monitored colleges | 11 |
| 2.1 Intensity of college interaction | 12 |
| 2.2 College meetings | 12 |
| 2.2.1 Quality of college meetings | 14 |
| 2.2.2 Agenda of the meetings | 14 |
| 2.2.3 Meeting documents | 15 |
| 2.2.4 Quality and depth of discussion | 16 |
| 2.2.5 Meeting minutes | 18 |
| 2.3 Other college activities | 18 |
| 2.4 Responsiveness of colleges | 18 |
| 2.5 Coordinated supervisory action plans | 19 |
| 2.6 Home-host cooperation during 2014 AQRs and stress test | 20 |
| 2.7 Joint risk assessment and joint decision process for capital | 22 |
| 2.7.1 Planning | 22 |
| 2.7.2 Joint risk assessment for capital | 23 |
| 2.7.3 Joint decision for capital | 24 |
| 2.8 Joint risk assessment and decision process for liquidity | 25 |
| 2.8.1 Planning and process | 26 |
| 2.8.2 Joint risk assessment for liquidity | 27 |
| 2.8.3 Joint decision for liquidity | 28 |
| 2.9 Crisis management framework | 29 |
| 2.9.1 Recovery planning | 29 |
| 2.9.2 Resolution activities | 31 |
| 3. Functioning of colleges monitored on a thematic basis and other colleges | 32 |
| 4. Mediation | 35 |
| 5. IT platform for exchanging information | 36 |
| 5.1 EBA IT platform | 37 |
| Annex I – Update Action Plan for Colleges for 2014 | 37 |
| Annex II – EBA Supervisory Colleges Action Plan for 2015 | 37 |

| | |
|--|-----------|
| Annex II – EBA Supervisory Colleges Action Plan for 2015 | 38 |
| Introduction | 38 |
| 1. Legal framework for colleges of supervisors | 39 |
| 2. New institutional setting | 39 |
| 3. Colleges Action Plan for 2015 | 40 |
| 3.1 Key topics for supervisory attention in 2015 | 40 |
| 3.2 Tasks for supervisory colleges in 2015 | 41 |
| 3.3 Alignment with the RTS and ITS on the operational functioning of supervisory colleges | 41 |
| 3.3.1 Written cooperation and coordination arrangements | 42 |
| 3.3.2 Mapping of supervisory college structure | 42 |
| 3.3.3 College supervisory examination programme | 43 |
| 3.3.4 Regular college interaction | 43 |
| 3.4 Joint group risk assessment and joint decisions on capital and liquidity | 44 |
| 3.5 Assessment and joint decision on group recovery plans | 45 |
| 3.6 Mapping of cross-border banking groups in the EEA and selection of colleges monitored by EBA staff | 45 |
| 3.6.1 EBA engagement with ‘other colleges’ | 46 |
| 4. Next steps and EBA assistance | 46 |
| Specific actions for supervisory colleges in 2015 | 47 |

Abbreviations

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|----------------|--|
| AQR | Asset Quality Review |
| BoS | EBA Board of Supervisors |
| BRRD | EU Bank Recovery and Resolution Directive (<i>Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms</i>) |
| CAs | Competent Authorities |
| CBSG | Cross-Border Stability Group |
| CMG | Crisis Management Group |
| CRR/CRD | Capital Requirements Regulation/Capital Requirements Directive (CRD IV referring to <i>Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms</i> , and <i>Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms</i>) |
| EBA | European Banking Authority |
| EEA | European Economic Area |
| ITS | Implementing Technical Standards |
| JRAD | Joint Risk Assessment and Decision |
| RTS | Regulatory Technical Standards |
| SAP | Coordinated Supervisory Action Plan |
| SCOP | EBA Standing Committee on Oversight and Practices |
| SREP | Supervisory Review and Evaluation Process |
| SSM | Single Supervisory Mechanism |

Executive summary

1. On an annual basis, the EBA establishes a Colleges Action Plan for supervisory colleges. The 2014 EBA Colleges Action Plan provided authorities responsible for supervising credit institutions ('competent authorities') with a set of objectives and deliverables expected from colleges of supervisors in line with their role and the tasks defined in the CRD and BRRD. It also gave a set of tasks to be undertaken by the EBA to support and monitor colleges in these processes. The findings in this report are based on the outcome of the monitoring of the accomplishment of the 2014 Colleges Action Plan, and EBA staff observations from the close monitoring of 25 colleges and the thematic monitoring of 19 colleges.
2. 2014 was a transitional year for supervisory colleges, with important changes taking place in the institutional setting of Eurozone banks, which came under ECB SSM supervision. This was combined with the AQR and EU-wide stress test exercise, and important developments in EU legislation with the CRD introducing new tasks for supervisory colleges as a joint decision on liquidity. The new EBA technical standards on joint decision on institution-specific prudential requirements also provided competent authorities with a detailed common process and common templates to support planning and communication between competent authorities.
3. Overall, the requirements of the EBA Colleges Action Plan for 2014 have been fulfilled to a reasonable extent and improvements were noted in colleges compared to previous years. An overview of how individual action points were accomplished can be found in the different sections of this report. Additional details are provided in the overview table in Annex I.
4. In 2014, competent authorities and EBA staff made significant efforts to further improve the effectiveness and efficiency of colleges. EBA staff noted an increased level of co-operation in colleges. More physical meetings and telephone conferences have taken place throughout the year, especially due to the additional thematic discussions in the context of the AQR and stress test exercises. In general, meetings are well structured and focus on developing a common understanding of the risk profile of the cross-border banking groups, and overall discussions are of a good standard and sufficiently in-depth.
5. A new joint decision on liquidity with a different timeline than the joint decision on capital added additional complexity in the planning of colleges' activities. As observed by EBA staff in 2014, it is equally important to inform college members of any changes in the initial timelines to ensure all competent authorities involved can adjust their work plans accordingly. The four-month period for reaching a joint decision on capital and the one-month period for reaching a joint decision on liquidity, starting from the distribution of the final risk reports, proves challenging for most colleges, especially for the joint decision on liquidity. The planning process is even more important for 2015, as EU colleges will need to reach three joint decisions, a capital and liquidity joint decision and a new joint decision on the assessment of group recovery plans.

6. EBA staff noted that most colleges produced comprehensive group risk assessment reports that provided an appropriate picture of the risk profile of the underlying institutions. In most colleges, the process of reaching joint decisions on capital was more standardised and was better structured overall than the process in 2013. For some colleges, the new templates included in the technical standards on joint decisions on institution-specific prudential requirements were not used. However, by the end of January 2015, only seven out of 22 closely monitored colleges agreed and finalised the capital joint decisions and only five colleges were able to update the joint decisions on capital within a 12-month period. This can be explained by the focus on the AQR and stress test exercises until November. There is also still room for improvement in the reasoning of the joint decision documents.
7. The outcome of the joint decisions on capital, expressed via the required level of own funds, is quite dispersed when compared with the findings and conclusions in the group risk assessment reports. The key limitation for more consistency in the outcome of the joint decisions is still the absence of a common methodology for the supervisory review and evaluation process (SREP) in Pillar 2. Greater consistency is expected to be achieved when the guidelines on common SREP are implemented by competent authorities in 2016.
8. The outcome of the joint decisions on liquidity has been rather varied, with differences in liquidity measures due not only to the differences in liquidity risk profile but also due to the use of different national methodologies for quantifying liquidity. The liquidity coverage ratio (LCR) framework and the SREP guidelines should contribute to a more consistent approach in the future. By the end of January 2015, only seven of the 22 closely monitored colleges had agreed and finalised the liquidity joint decisions. Out of the seven finalised joint decisions, four were reached within the one-month period and three joint decisions took up to two months to be finalised. There is room for improvement in the conclusions on liquidity adequacy and the reasoning of the joint decision document.
9. The importance of colleges having a secure IT platform for the exchange of confidential information was clearly demonstrated at the end of the EU-wide stress test exercise when consolidating supervisors needed to distribute the results securely to college members prior to official publication. The EBA IT collaboration platform is available to all competent authorities as a secure IT platform and can be used to exchange confidential information within the college context.
10. The RTS and ITS on functioning of supervisory colleges together with the ITS on the joint decision process for institution-specific prudential requirements now provide the competent authorities with a complete legal framework for the functioning of colleges of supervisors. The priority outcomes for colleges in 2015 are their re-establishment under the new RTS on the functioning of colleges, and the successful completion of the first joint decision process on the assessment of group recovery plans, which is a new requirement for colleges in 2015 stemming from the BRRD.

11. Whereas the launch of the SSM on 4 November 2014 had a material impact on the composition and dynamics of colleges of supervisors for banks in the euro area, colleges of supervisors will continue to play an important role for banks with a presence in both SSM and non-SSM countries. Our assessment is that most big banking groups will continue to require work through colleges and the overall reduction in the number of colleges is modest. The EBA will continue its role in colleges to strengthen the co-operation between SSM, non-SSM and third-country supervisory authorities.

1. Identification of EEA colleges and selection of colleges monitored by the EBA

Role of colleges of supervisors

Colleges of supervisors are permanent and flexible structures for the coordination of supervisory activities. They are established under EU law for EEA banks with subsidiaries or significant branches in other EEA countries. They may include supervisors in non-EEA countries where relevant.

As foreseen in the CRD, colleges of supervisors provide a framework for the consolidating supervisor and the other competent authorities to carry out the following main tasks:

- Exchanging relevant or essential information in going concern and emergency situations.
- Agreeing on voluntary entrustment of tasks and voluntary delegation of responsibilities where appropriate.
- Planning and coordinating supervisory activities and determining supervisory examination programmes based on a risk assessment of the group.
- Consistently applying the prudential requirements under the CRD across all entities within a banking group.
- Reaching a joint decision on the adequacy of the level of own funds held by the group with respect to its financial situation and risk profile and the required level of own funds for each entity within the group and on a consolidated basis. The joint decision shall be specified in a document containing full reasoning and taking into account the risk assessment. The joint decision document shall be provided to the EU parent institution by the consolidating supervisor.
- Reaching a joint decision on the adequacy of the liquidity and the liquidity risk management. The joint decision shall be specified in a document containing full reasoning and taking into account the liquidity risk assessment. The joint decision document shall be provided to the EU parent institution by the consolidating supervisor.

1.1 EBA 2014 approach to college monitoring

12. The EBA opted to use a new approach for the monitoring of colleges in 2014. The overall aim was to improve the quality of monitoring and adjust the level of monitoring to the specific requirements of the colleges, enabling a more efficient use of resources. To achieve this, the colleges were divided into three groups:

1. Closely monitored colleges.
2. Colleges followed on a thematic basis.
3. Other colleges.

13. While for the closely monitored colleges there was an intense level of communication between EBA staff and the consolidating supervisory authorities, for the colleges followed on a thematic basis EBA staff interacted with the colleges for specific topics. The so called 'other colleges' were not monitored on an individual basis by EBA staff. For these colleges, a group-based approach was used in the communication with the relevant consolidating supervisory authorities.

1.2 EEA cross-border banking groups

14. To ensure adequate coverage and monitoring of colleges, competent authorities were asked to complete a mapping template with updated information on EEA cross-border banking groups, and on the colleges established for these groups.
15. Based on the information obtained during the mapping exercise, 143 EEA cross-border banking groups were identified for which 94 active colleges have been reported. In cases where no active college was established for a cross-border banking group, competent authorities referred to the absence of subsidiaries and significant branches, or to the restructuring of the banking group leading to a sale of subsidiaries. During the year, one additional college was reported to the EBA, resulting in a total of 95 active colleges in 2014.

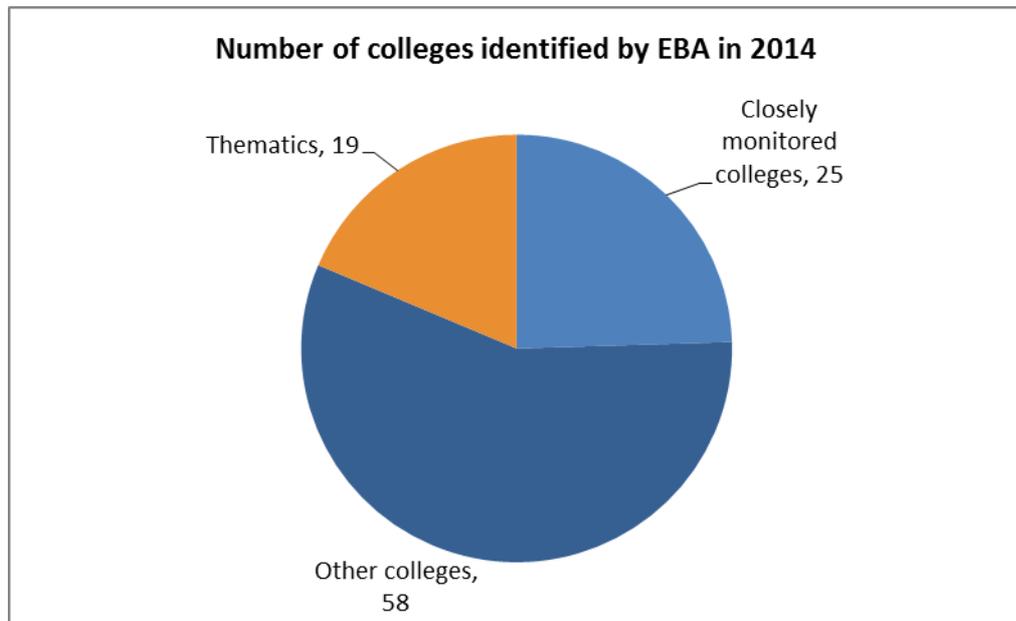
1.3 Non-EEA cross-border banking groups present in the EEA

16. Based on the information obtained during the mapping exercise, 126 third-country banking groups were identified as being active in the EEA through one or several entities. In total eight active colleges were reported to have been set up at the EEA sub-consolidated level for these banking groups. The low current EEA college coverage of these groups is partially due to the dispersed structure of these groups, and their lack of a holding company at the European level.

1.4 EBA coverage of colleges

17. Following the mapping exercise, 102 active colleges in total were identified by EBA staff, of which 25 were classified as closely monitored colleges, and 19 as colleges followed on a thematic basis¹.

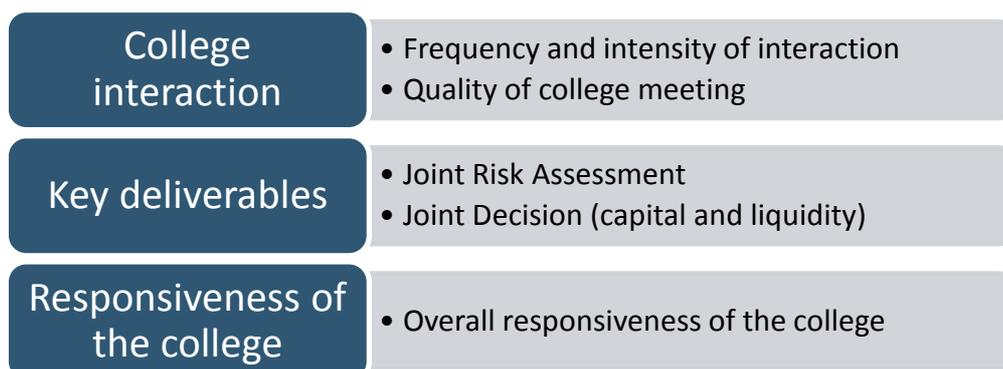
¹ A set of quantitative and qualitative criteria was used for the classification of the colleges, and both the criteria and the outcome were reported to BoS members. Generally, colleges for G-SIFIs and large EEA cross-border banking groups (total assets above EUR 30 bn) with relevant international presence were classified as 'closely monitored' colleges, and colleges for EEA cross-border banking groups in restructuring or resolution or with non-relevant EEA subsidiaries and branches, and third-country banking groups active in the EEA were classified as colleges 'followed on a thematic basis'.



18. While EBA staff engagement in colleges focused primarily on the 25 closely monitored colleges and the 19 colleges followed on a thematic basis, there was also EBA involvement in some of the 'other colleges' where deemed important due to significant developments in related banking groups.

2. Functioning of closely monitored colleges

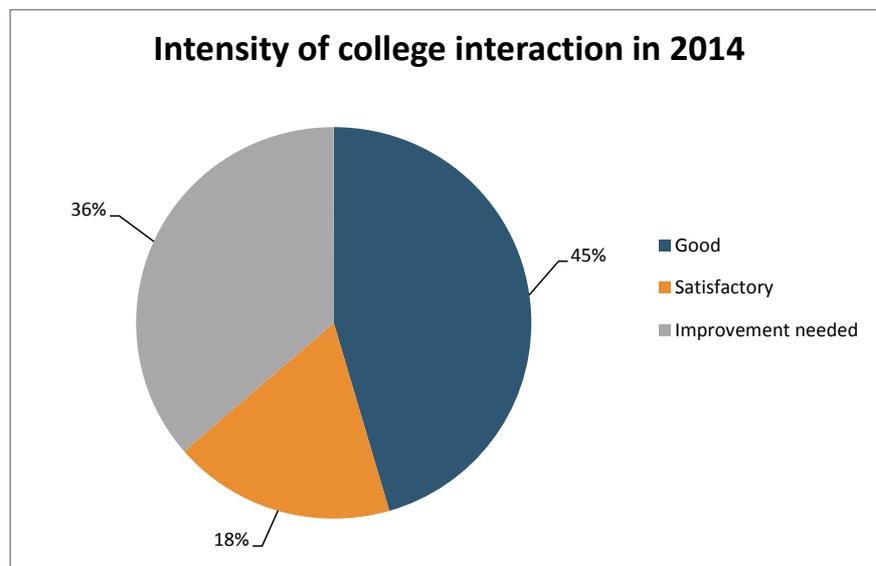
19. As mentioned in section 1 with regard to the selection of closely monitored colleges, the goal of the EBA was to achieve a higher quality of monitoring of these colleges and thus to provide more structured feedback to consolidating supervisors and BoS members on a regular basis. Therefore the EBA introduced the yearly assessment of college activities for the first time in 2014 which covered all college activities throughout the year (process aspects) and the key deliverables of colleges — the joint risk assessment (joint liquidity risk assessment) and joint decisions for capital and liquidity. In addition, the overall responsiveness of the college formed an important part of the evaluation.



20. The assessment was performed based on standards and regulations in force, as well as EBA expectations that were communicated to consolidating supervisors for the expected level of college interaction. A three-point scoring scale was used for the scorecards ranging from ‘good’ to ‘improvement needed’. In general, an item is scored ‘good’ if all regulatory requirements/good practices are met, ‘satisfactory’ if the most important regulatory requirements/some good practices are met, and ‘improvement needed’ if some major shortcomings are observed. The assessment resulted in a structured scorecard for each individual college together with a summary and reasoning for all assessment criteria, which has been provided to the home supervisor and BoS member. This additional form of feedback enabled the EBA to acknowledge achievements in the operation of colleges and support them in identifying areas for improvement. The upcoming sections summarise the main findings and conclusions of the assessment.

2.1 Intensity of college interaction

21. To enhance the frequency and intensity of interactions in colleges, specific EBA expectations were communicated individually to the consolidating supervisors of the closely monitored colleges. When setting out these expectations, the EBA considered the systemic importance and international presence (cross-border aspect) of each cross-border banking group.
22. The EBA assessment was based on the level of compliance of each individual college with the expected intensity of co-operation communicated. The expectations generally included quarterly college interaction in a suitable college setting, of which one or two meetings were recommended in the form of physical meetings to encourage more efficient and fluent interaction between competent authorities.
23. Competent authorities generally continued to improve co-operation within the college framework and approximately two-thirds of the colleges overall complied with the recommendations; however, 36% of supervisory colleges still needed to intensify the level and frequency of interactions.

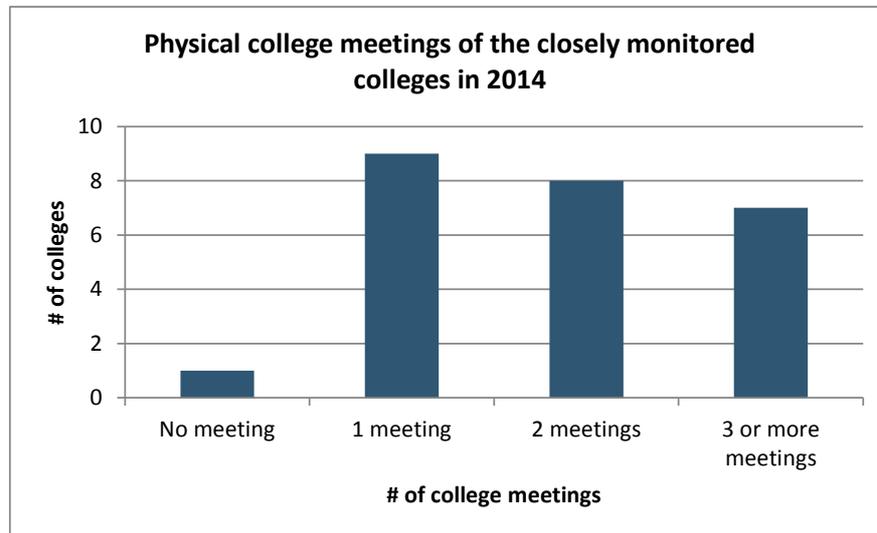


24. Nevertheless, 2014 was a year of transition in the Eurozone, with the establishment of the SSM and with supervisory responsibilities conferred to the ECB. Furthermore, the close involvement of competent authority staff in accomplishing the 2014 prudential exercises (AQR and EU-wide stress test) consumed considerable human resources. These developments inevitably affected the work completed in colleges in 2014.

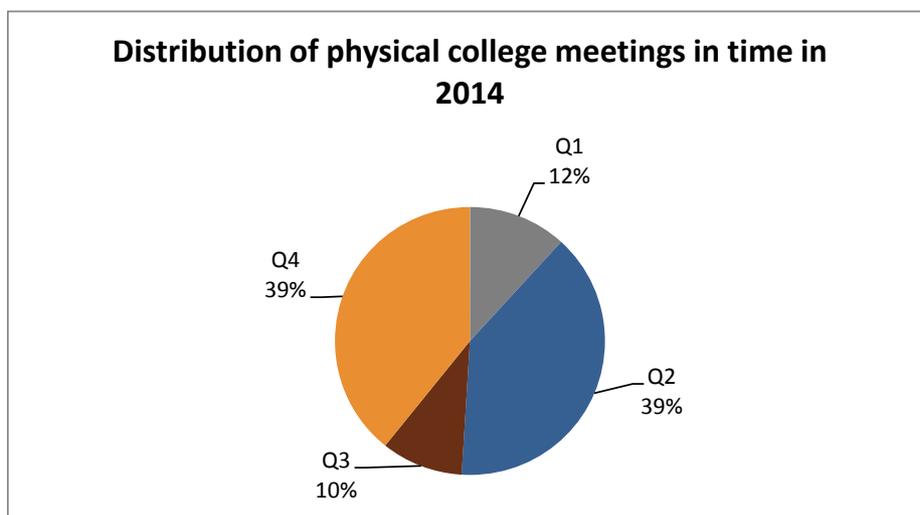
2.2 College meetings

25. The 25 closely monitored colleges held a total of 51 physical meetings during the course of 2014, of which 47 were attended by EBA staff. The college meetings not attended by the

EBA were focused on very specific or technical topics, such as IRB status updates. The majority of colleges organised two or more physical meetings throughout the year, while nine colleges did not meet the expected minimum level of cooperation, with only one meeting organised in 2014. The majority of colleges also had quarterly interaction in the form of conference calls.



26. The distribution of meetings showed seasonality, with the highest number of meetings spread equally across the second and fourth quarters of the year.

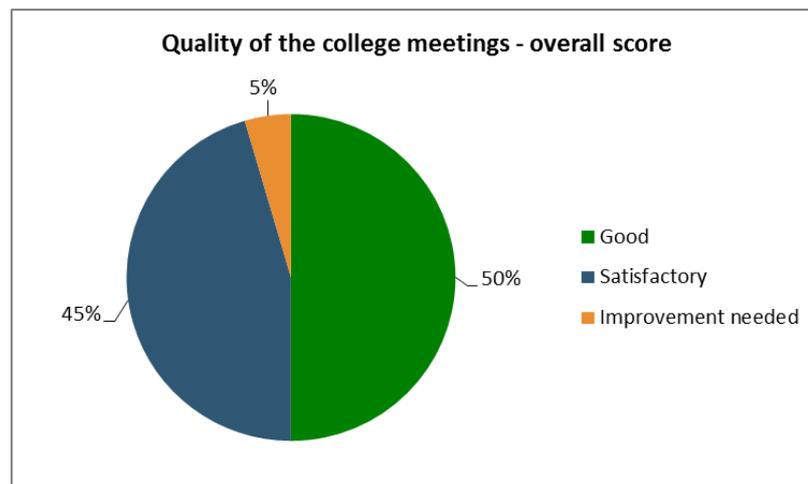


2.2.1 Quality of college meetings

27. The main driving forces of successful college meetings were identified by EBA staff and provided the basis for the assessment of the various aspects of college meetings:

- the agenda of college meetings
- meeting documents and presentations
- the quality and depth of discussions
- meeting minutes.

28. All four aspects were taken into account when assessing the overall quality of the college meetings for each closely monitored college.



29. The following sections introduce the EBA staff assessment of the quality of the interaction observed in supervisory colleges together with these key attributes of college meetings.

30. Exactly half of the colleges had good-quality interactions in the course of 2014, and ten colleges were assessed as satisfactory by EBA staff. While in some colleges improvement was still needed in certain elements of these attributes (agenda, meeting documents, quality and depth of discussion, minutes), in other colleges improvement was needed in almost all aspects of the college interaction.

2.2.2 Agenda of the meetings

31. The agenda of the college meeting is expected to be circulated by consolidating supervisors to the other members of the college well in advance² of the meeting so that members of the college can provide comments and suggest agenda items. Furthermore, the

² One week before the meeting takes place.

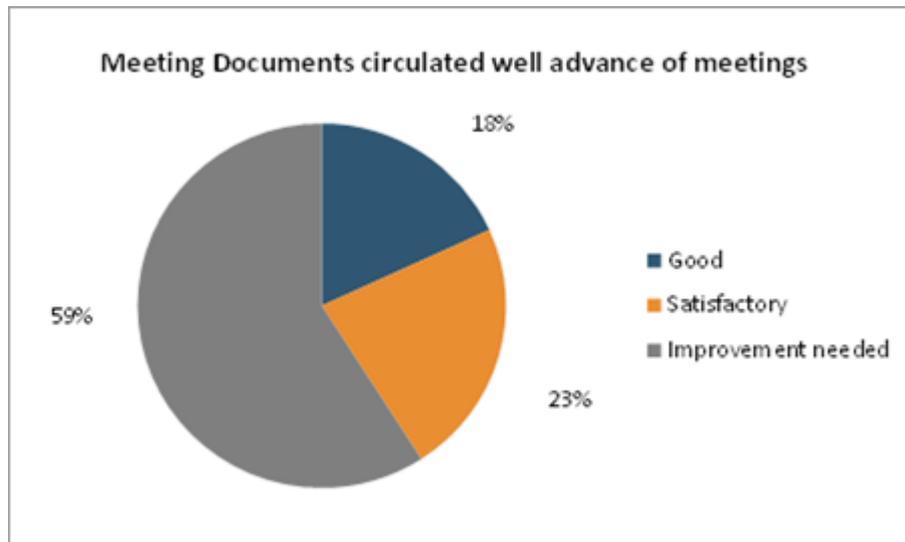
agenda should ideally reflect all relevant risks and topics to be discussed with sufficient time allocated to all agenda items. EBA staff concluded that overall almost two-thirds of all closely monitored supervisory colleges were actively engaging with college members in this respect. EBA staff observed positive practices of some consolidating supervisors by inviting college members before the meetings to suggest items to be covered in the bank management's presentation, thus enabling a more focused college meeting.

32. Where colleges received a satisfactory score, frequent shortcomings were that the agenda was only distributed just prior to the meeting, leaving no time for suggestions to be incorporated, or that the home authority did not seek the views of the members of the college. One supervisory college received a score of 'improvement needed' because an important topic, which was actually at the centre of the host authorities' concerns, had not been put on the college's agenda and was not added to the bank's presentation, even though college members suggested it. Moreover, The timing of the items on that particular agenda was very tight.

2.2.3 Meeting documents³

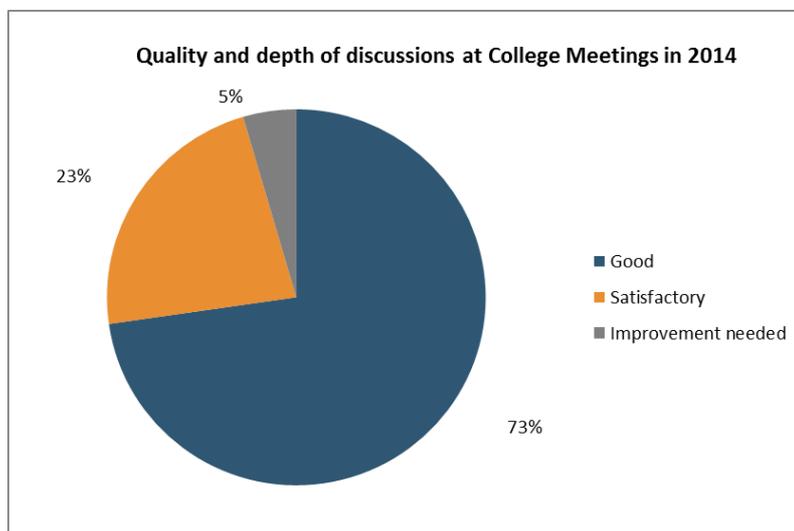
33. Based on EBA staff observations, there is generally a link between the timely circulation of meeting documents and the quality of college meetings. The earlier the documents are shared within the college, the higher the level of contributions from college members at the meetings. In 59% of all colleges, the papers were not generally distributed prior to meetings and in some cases they were not even provided on the day of the meeting. Considering the complexity of the issues usually discussed in supervisory colleges and the significance of decisions being reached and their relevance for the supervised entities, it is reasonable to expect documents to be circulated in a timely manner.
34. The late distribution of the documents was a recurring issue in many colleges, and this issue has already been raised with the competent authorities in previous EBA staff feedback. EBA staff would expect to see improvements in this respect. Admittedly, timely circulation of documents is less important in colleges where cooperation is lively and continuous involving frequent college calls and meetings.

³ Presentations of competent authorities and other members of the college and the bank's presentations and other documents.



2.2.4 Quality and depth of discussion⁴

35. College meetings were generally better structured and more focused on developing a common understanding of the topics and risk profiles of the cross-border banking groups. The vast majority of colleges received a good score for the quality and depth of discussions. Apart from organising more structured and focused meetings, home authorities were good chairs of the meetings in 17 out of the 25 colleges and facilitated discussions and host involvement.



36. Due to an increased willingness of both home and host authorities to share information, EBA staff observed more in-depth discussions among college members in 2014 than in previous years. Furthermore, the increased activity of supervisors also entailed a more intensive interaction with bank representatives and a higher level of mutual challenging.

⁴ Please note that this section of the report will provide a general overview of college discussions. Details on the risk assessment and joint decision discussions will be covered in the respective parts.

37. Colleges proved to be prominent in terms of developing multilateral in-depth discussions at meetings, which can be characterised by regular and frequent (at least quarterly) contact, close host involvement and mutual challenging of one another's assessment. The presence of risk experts (technical experts) at the meetings, both from the consolidating supervisor and host authorities, enhanced mutual understanding of the respective topics.
38. There was still room for improvement in some colleges where discussions were limited and/or almost exclusively bilateral. College meetings assessed by EBA staff as 'improvement needed' generally had limited host authority involvement, and in some cases host authorities did not contribute at all. In some cases the host competent authorities did not have the opportunity to be prepared and raise questions to the same extent as the consolidating supervisor, mostly due to the absence of any meeting material.
39. Last year's report indicated that, in many cases, where various college settings existed (e.g. core, general, global, European) the information flows between these colleges were not sufficient, and members of the general college were not always appropriately informed about all activities and findings from the work done in other college settings. This year, colleges improved on this and channelled information collected from other college settings into the work of the general college in a variety of ways. For example, general college members were informed about the work of the core college in the form of a dedicated session at the outset of the general college meeting, or in another case the main conclusions reached in the core college were included in the draft group risk assessment report and circulated to college members. With these good examples we would like to encourage all colleges to ensure that structured information flows between different college settings.
40. The active participation of EBA staff during college meetings was increasingly perceived by competent authorities as a positive contribution, in particular with regard to the interpretation of the provisions of various policy products and their effect on the functioning of colleges as well as on the content and articulation of the key deliverables. The EBA as a member of the college was more often seen by the supervisors of cross-border banking groups as a source of information and a bridge between the newly developed policy products and their practical implementation.
41. Following the positive feedback from colleges on the relevance and usefulness of the micro risk dashboard presented by EBA staff, a macro risk snapshot is being increasingly provided at college meetings to further support the risk assessment work being done in colleges.

2.2.5 Meeting minutes

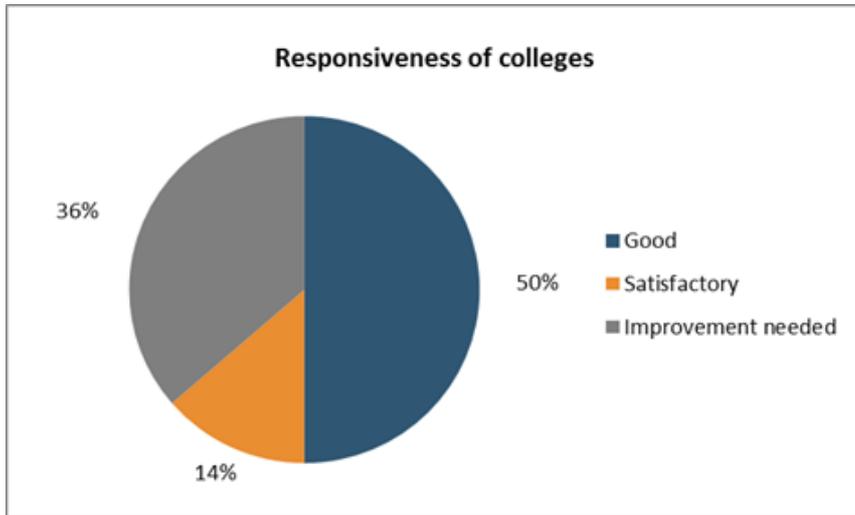
42. In half of the colleges, the consolidating supervisors prepared minutes of the college interactions and shared them with the other members of the college for comments. These minutes proved to enhance the quality of the interactions in two ways: Firstly they reflected the key outcomes of the meetings, and secondly they were used as action points for future work in the college.

2.3 Other college activities

43. In addition to physical meetings, the majority of the ‘closely monitored’ colleges held regular conference calls, some of which took place on a quarterly basis. Conference calls were also organised around specific topics such as the AQR and stress test exercises, or the EBA capital preservation recommendation.
44. EBA staff also observed a wide range of other activities in colleges, such as providing regular updates to college members on the financial figures of the banking group, distributing a quarterly college newsletter and sharing monthly liquidity updates. The most successful cooperation included joint examinations and joint thematic surveys.

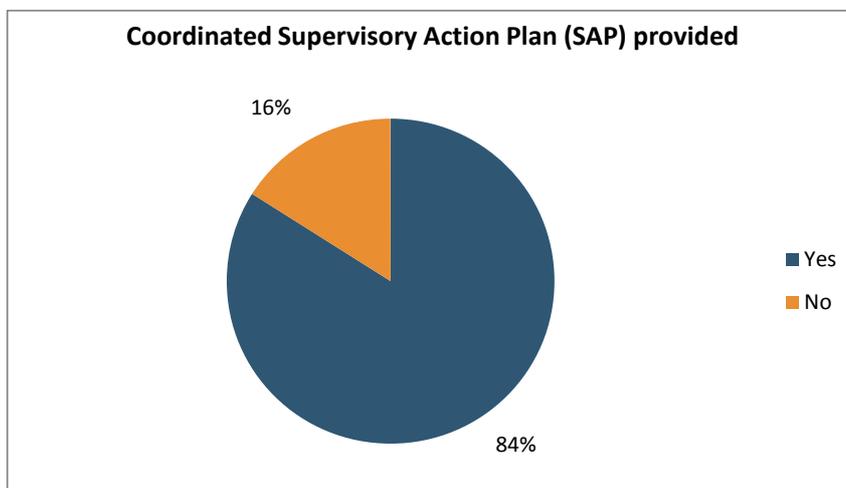
2.4 Responsiveness of colleges

45. The EBA is tasked with contributing to and monitoring the effective and efficient functioning of colleges of supervisors. EBA staff therefore provided consolidating supervisors with regular feedback on the functioning of colleges (process aspect) and on the quality and appropriateness of the key deliverables, namely the joint risk assessments and joint decisions. In addition, other members of the colleges often contributed questions or recommendations on a variety of aspects on the functioning of colleges. The extent to which consolidating supervisors have acted on this feedback and followed up on specific issues is reflected in the assessment of the overall responsiveness of the college.
46. The EBA noted a good level of responsiveness in half of the colleges with regard to the college acting upon recommendations and comments from college members (including the EBA). However, eight colleges still had difficulties in incorporating EBA staff feedback or host proposals. Some consolidating supervisors should do more to act upon college members’ requests and suggestions.



2.5 Coordinated supervisory action plans

47. Coordinated supervisory action plans (SAPs) were provided to the EBA for all but four of the ‘closely monitored’ colleges.



48. In some colleges, due to the understanding of the necessity and advantages of a joint supervisory cycle, EBA staff observed enhanced cooperation among competent authorities addressing coordinated supervisory activities, particularly in the field of joint examinations and joint preparation of the AQR. However, in many other colleges the establishment of the coordinated supervisory action plan was still approached as a mere compilation of the individual supervisory actions planned by college members. Improvement was needed in establishing closer links between the outcome of the joint risk assessment of a banking group and the coordinated supervisory action plan, in particular with regard to specific supervisory

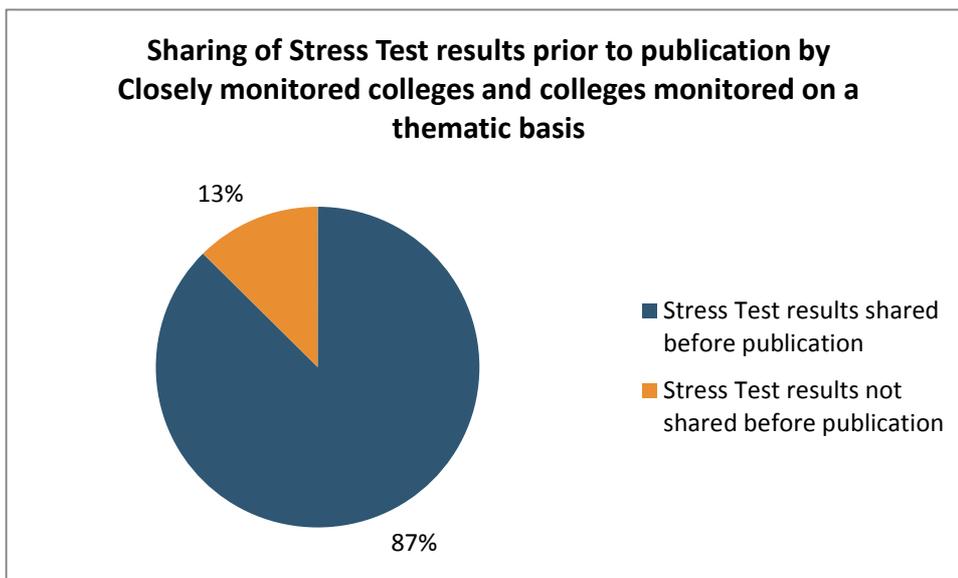
activities to address the main deficiencies or risks identified through the joint risk assessment and joint decision process.

49. An issue identified in the course of 2014 was the interaction between the SAP and the timeline for reaching joint decisions on capital and liquidity. Where the timelines for reaching the capital and liquidity joint decisions were incorporated in the SAP, the timelines were often not detailed enough to cover all steps described by the technical standards on the joint decisions (Article 3, Paragraph 2 of Commission Implementing Regulation No 710/2014). In contrast, when the SAP and the timelines for reaching joint decisions on capital and liquidity were separate documents, inconsistencies were often identified among the documents in terms of the timing and coverage of the different steps of the joint decision processes.

2.6 Home-host cooperation during 2014 AQRs and stress test

50. The EBA developed a home-host protocol as guidance to assist relevant EU competent authorities in ensuring effective home-host communication and coordination of the 2014 AQR and EU-wide stress test exercises in the framework of colleges of supervisors. The first version of the protocol was agreed by the EBA BoS members in January 2014, and a second version was agreed and distributed in July 2014.
51. The main tasks for colleges as foreseen in the CRD, namely to share relevant information, plan and coordinate work, and to exchange and discuss results and subsequent supervisory actions, were also to be applied by colleges during the AQR and EU-wide stress test exercises.
52. In addition to the bilateral interactions between home and host authorities throughout the AQR, the home-host protocol underlined the importance of planning college discussions at the following specific milestones throughout the AQR and stress-testing process:
- a. discussion on AQR/stress test process (at the start of the AQR exercise)
 - b. status update on AQR (at the end of the AQR exercise)
 - c. exchange on final AQR/stress test results (prior to publication of the results).
53. EBA staff monitored the home-host interaction during the AQR and EU-wide stress test for the closely monitored colleges and for the colleges followed on a thematic basis.
54. EBA staff observed variation in the intensity and form of college interaction with similar approaches per country. For the majority of the colleges, a three-step approach was used with a first AQR interaction by the end of 2013, a second AQR interaction by June 2014, and a final update on the AQR and stress test results in October 2014. For most colleges, the first and interim college updates were mostly focused on the process and timeline of the AQR exercise, and information on the content and results of the exercises was relayed to the final discussion.

55. Based on experience from previous stress tests, the EBA highlighted the importance of consolidating supervisors informing college members of the outcome of the AQR and stress test exercises prior to the official publication of the results, so that all supervisors can prepare for the possible impact of publication at local level. Whereas some reluctance was observed in view of the strict confidentiality of the data and the fear of leaks prior to the publication, the AQR and stress test results were ultimately shared with college members prior to the official publication for all of the closely monitored colleges, and for the majority of the colleges followed on a thematic basis.



56. For most of the colleges, the disclosure templates were uploaded on the secure college website, and a college conference call was organised to discuss the results and subsequent supervisory actions.

57. The following issues were observed with regard to the distribution of the confidential stress test data to college members. For a few colleges, no secure IT tool was available for the exchange of confidential information, and for some colleges user access permissions for the secure IT tool were not up to date so not all host supervisors had access to the data. Whereas most consolidating supervisors opted to share confidential stress test data only with the EU host supervisors prior to the official publication, they could not do so via the secure IT tool if the tool did not provide the functionality to grant single authorities access to specific subsets of information. Some consolidating supervisors opted to distribute the data via encrypted e-mails, but for others this was not an option, as their internal guidance did not allow for the use of secure e-mail.

58. Different approaches were used for different colleges even within the same consolidating competent authority with regard to which college members were informed about the AQR and stress test results (all college members, only EU college members or only college members responsible for subsidiaries included in the portfolio selection). Some of the approaches were

not in line with the requirement of the home-host protocol for all (EU) competent authorities to be informed of the results ahead of their public disclosure.

59. Whereas the AQR results have provided more clarity on credit risk, asset quality remains a significant concern in the light of the weak macroeconomic environment. Competent authorities are therefore requested in the EBA 2015 Colleges Action Plan to include credit risk and quality of assets as one of the key topics for supervisory attention in 2015, and to follow up on all recommendations stemming from the AQR and stress test exercises.

2.7 Joint risk assessment and joint decision process for capital

Joint risk assessment and decision (JRAD)

Since 2011, it is required by the CRD that the consolidating supervisor and supervisors of subsidiaries involved in the supervision of an EEA cross-border banking group conduct a JRAD for capital. The JRAD is to be carried out within the college of supervisors established for the coordination of supervisory activities of the banking group.

In the joint risk assessment which is coordinated by the consolidating supervisor, the competent authorities jointly assess the risk exposure and control of the banking group.

The joint assessment is concluded by a so-called joint decision in which the home and host supervisors make a joint decision on the application of the Pillar 2 provisions related to the Internal Capital Adequacy Assessment Process (ICAAP) and to the SREP.

The joint decision should cover the determination of the adequacy of the consolidated level of own funds held by the group with respect to its financial situation and risk profile, as well as the required level of own funds, above the regulatory minimum, applied to each entity within the group.

Since 2014, it is a new requirement by CRD IV that, in addition to the JRAD for capital, supervisors also need to agree on a joint risk assessment and joint decision for liquidity.

In the joint risk assessment for liquidity, which is coordinated by the consolidating supervisor, the competent authorities jointly assess the liquidity risk and funding risk, as well as the liquidity and funding risk management.

Based on the liquidity risk assessment, a joint decision is concluded on the adequacy of the liquidity and on possible measures to address significant liquidity matters.

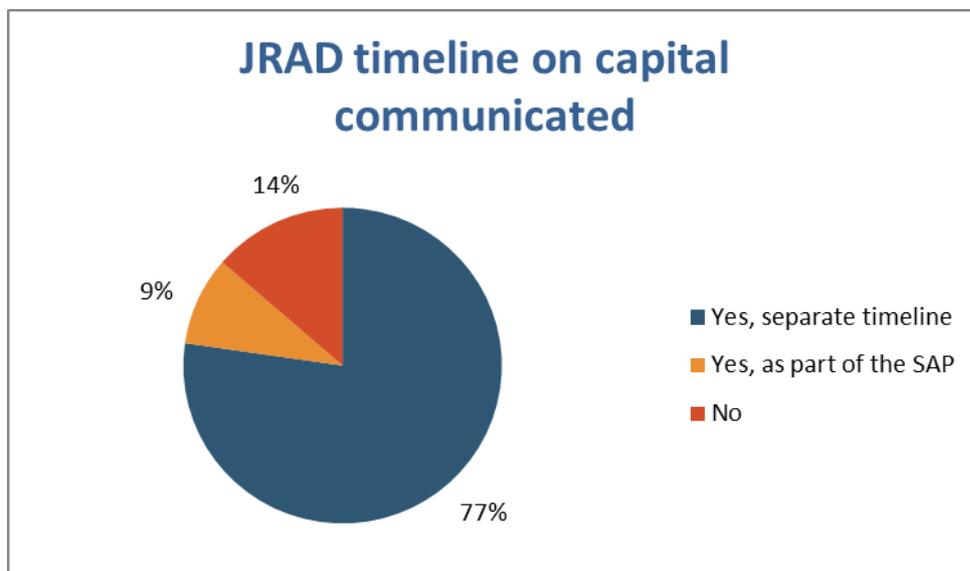
60. The joint risk assessment and decision-making process rests upon three main pillars: (i) joint planning, (ii) joint risk assessments, and (iii) joint decisions. These three elements should be viewed not in isolation but as mutually reinforcing steps that lead from the initial planning phase through deep risk assessments to final joint decisions on adequacy of capital and liquidity.

2.7.1 Planning

61. A structured and well organised planning process for college activities with the close involvement of all relevant competent authorities is one of the key prerequisites in reaching

both mutually agreed joint risk assessments and joint decisions that address key risks faced by supervised entities. The ITS on the joint decision process (Regulation No 710/2014) place great emphasis on the planning process and list a wide range of important steps to be taken when preparing the joint decision timetables. EBA staff stressed the key role of the planning process throughout the last supervisory cycle.

62. 19 of the 22⁵ closely monitored colleges communicated to the EBA the timelines for the planning of the capital joint risk assessment and decision process as agreed in the college. The total number of closely monitored colleges fell compared to the previous year, and the percentage of these colleges communicating the agreed timelines also decreased.



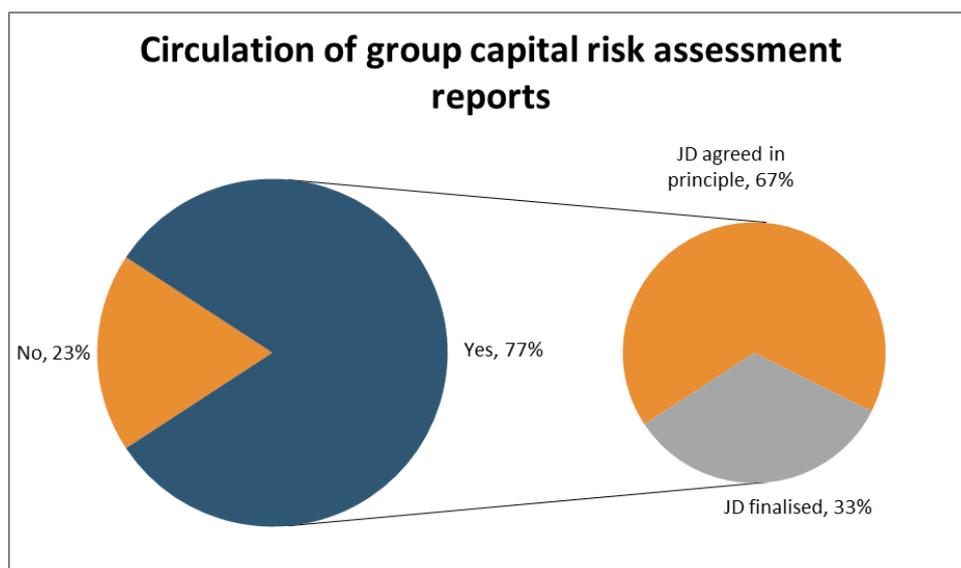
2.7.2 Joint risk assessment for capital

63. For the group risk assessments, EBA staff monitored the quality of the process together with the quality of joint risk assessment documents, and also the circulation of draft and final assessments.
64. Based on the criteria EBA staff use for these purposes, the overall quality of the group risk assessments (including both process and documents) was good. Of the 22 closely monitored colleges, 11 were scored as ‘good’, 6 as ‘satisfactory’ and 5 as ‘improvement needed’.
65. Based on the quality of the group risk assessment, EBA staff concluded that, in the majority of cases, the supervisory authorities obtained an appropriate picture of the institutions’ risk profiles and risks to capital.
66. The colleges scoring ‘improvement needed’ clearly deserve the most attention as in several cases they failed to use basic elements of the ITS in the joint decision process, such as

⁵The assessment of the joint risk assessment and joint decision process excluded 3 banking groups from the 25 closely monitored colleges which have European operations inside SSM only.

the binding templates for risk assessments, or did not circulate a final version of the group risk assessment report. Other shortcomings identified included missing forward-looking elements, or missing information on supervisory measures. In many cases, the business model analysis performed by competent authorities had not been prepared in accordance with the new methodology laid down in the Single Supervisory Handbook in 2014. In one case, the EBA unfortunately received only very limited information about college activities related to the joint risk assessment and the group risk assessment report was not circulated to the college before triggering the start of the joint decision time period.

- 67. The colleges scoring ‘satisfactory’ made significant progress compared with the previous supervisory cycle but there was still room for improvement in areas such as timely circulation of the joint risk assessment documents prior to college meetings, or the depth of discussions on the draft risk assessments.
- 68. The circulation of draft joint risk assessments is important for both the home supervisory authorities and host supervisory authorities. By circulating the draft joint risk assessments, the home and host supervisory authorities make sure that the assessments reflect the risk profiles of individually supervised entities and of the group as a whole. As for the final risk assessments, in addition to reaching common views, their finalisation and distribution serve as starting points for reaching the joint decisions within the prescribed time limits. This starting point is also important when mediation takes place.
- 69. The draft group risk assessments for capital were circulated for 20 colleges out of the 22 closely monitored colleges. Only 16 of the 22 final group risk assessments were circulated.



2.7.3 Joint decision for capital

- 70. Similarly to the joint risk assessments, EBA staff followed the quality of the joint decision process, the quality of joint decision documents and the circulation of draft and final decisions.

The overall quality of the process of reaching the capital joint decisions was good, with 11 colleges scored as 'good', 8 as 'satisfactory' and 3 as 'improvement needed'.

71. In some colleges, the draft joint decision document was not distributed in advance of the college discussion, or there was no substantial discussion about the content or there were bilateral discussions on the joint decision without involving the college.
72. As far as the quality of the joint capital decision documents is concerned, EBA staff considered the quality of the joint decisions to be improving. However, this is still a challenge for many colleges and EBA staff identified many potential improvements. Of the 22 closely monitored colleges, only 4 were scored as 'good', 13 as 'satisfactory' and 4 as 'improvement needed'.
73. The main areas for improvement included the fact that two separate joint decision documents need to be used for capital and liquidity⁶, the requirement to include information about the actual level of own funds, as well as a clear articulation of the level of required own funds, and appropriate reasoning. The insufficient information about, or complete absence of, the latter three elements may lead to misinterpretations which, in turn, pose a risk of inadequate coverage of risks.
74. During the joint decision process on capital, the draft joint decisions were circulated for all colleges but one. By the end of January 2015, seven out of the 22 closely monitored colleges agreed and finalised the capital joint decisions. As for the pending decisions, the EBA was not notified of any disagreements that could prevent competent authorities from reaching capital decisions.
75. The joint capital decisions should be reached within four months of the submission of the final group risk assessment to the relevant competent authorities. Of the seven closely monitored colleges that reached final joint capital decisions, six complied with this legal requirement.
76. In accordance with Article 113 of Directive 2013/36/EU, the joint decisions should be updated on an annual basis. As indicated above, at the end of January, only seven colleges reached final joint capital decisions. Of these seven colleges, five updated the joint capital decision within the 12 month deadline. This can be explained by the focus on the AQR and stress test exercises up until November.

2.8 Joint risk assessment and decision process for liquidity

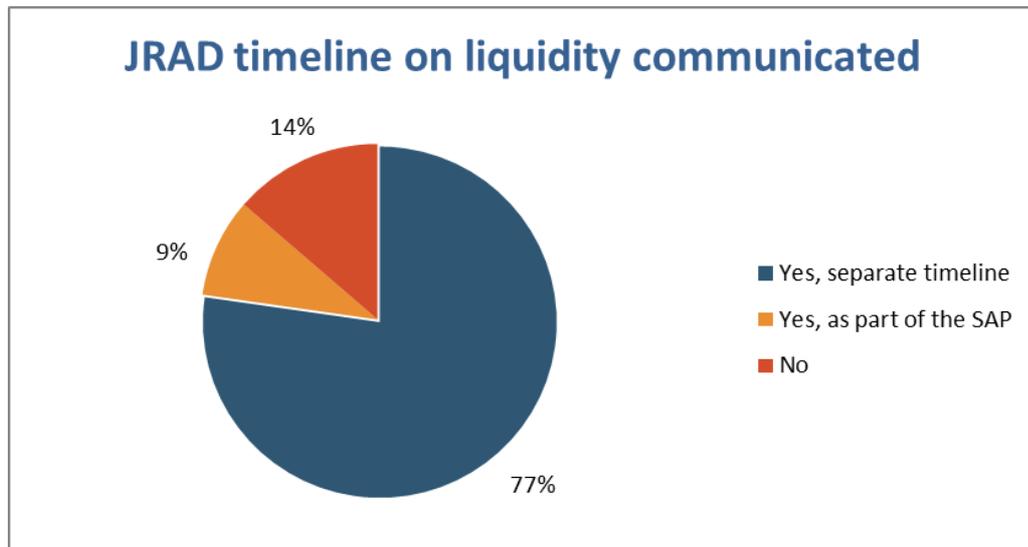
⁶ The joint decision on capital and joint decision on liquidity should be in two separate documents. Pursuant to the CRD and Commission Implementing Regulation (EU) No 710/2014 on institution-specific prudential requirements, there are two joint decisions to be reached, the capital joint decision and the liquidity joint decision, and these joint decisions should be included in two separate documents following the requirements for each joint decision document provided in the Implementing Regulation.

77. This year, EU colleges needed to reach a joint decision on liquidity for the first time. To enable relevant competent authorities to perform this task effectively, in early 2014 the EBA published a discussion paper with a draft methodology for assessing liquidity and funding risk under the SREP⁷. Requirements regarding the process and the templates were included in Commission Implementing Regulation No 710/2014.
78. The main conclusion stemming from the supervisory assessment of liquidity risk is that it did not seem to be a significant supervisory concern in most of the 22 closely monitored colleges.
79. The outcome of the joint decision has been rather varied. Seven colleges deemed there was an adequate level of liquidity and sufficient liquidity risk management both at group and individual level, and no liquidity measures were proposed. In the remaining cases, different qualitative and/or quantitative measures were agreed either at the consolidated or individual level, or both. The range of these measures has been broad.
80. Quantitative measures were based on local requirements and varied significantly between colleges. In few cases, they were already linked to the LCR. In some joint decisions, the nature of the requirement was not clear. In particular, there were doubts about whether some requirements were the result of a recommendation or a binding requirement set for all institutions in a Member State or whether they were institution specific requirements. EBA staff would like to note that these general recommendations or binding requirements addressed to all banks should always be included in the joint decision document but only for information purposes and not as part of the joint agreement.

2.8.1 Planning and process

81. A few colleges did not inform the EBA about the timeline agreed at the college for the liquidity joint risk assessment and decision process. A number of colleges have also seen their timetables modified throughout the year with no clear communication of the new deadlines to college members.

⁷ The final methodology has been incorporated to the SREP guidelines published at the end of 2014.

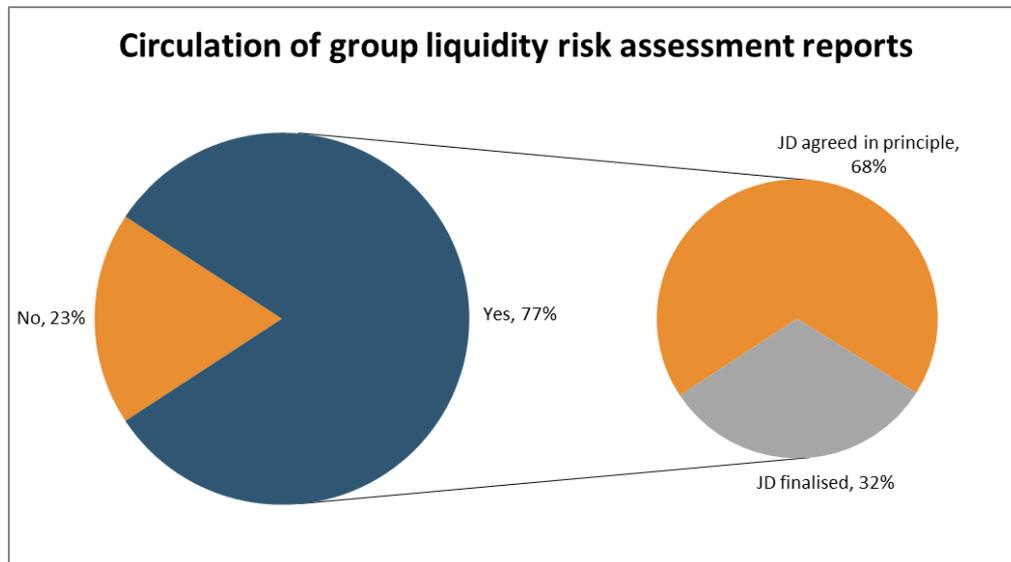


82. Another issue observed in some liquidity joint decision processes is that the final joint risk assessment report was not distributed to college members. Commission Implementing Regulation No 710/2014 states that once relevant competent authorities have reached an agreement on the content of the liquidity risk assessment report, the final version must be distributed by the consolidating supervisor. This is a key step in the process, as it triggers the one-month period specified in the CRD, which has some important legal consequences (e.g. in the case of mediation).
83. EBA staff expects colleges to have clear timetables highlighting the key events of the liquidity joint decision process and expect college members to be kept up to date on any modifications. This benefits the transparency of the process, the coordination of the internal procedures of the different supervisors involved in the college and that joint decisions comply with legal requirements.

2.8.2 Joint risk assessment for liquidity

84. Although there were some issues in the process, the overall quality of the joint liquidity assessments reports was adequate. In almost all cases both the liquidity risk assessment report and the discussions allowed members of the college to understand and agree on the firms' liquidity risk profile. The 22 colleges used the common templates included in Commission Implementing Regulation (EU) No 710/2014, although in some cases the tables summarising the scores and the liquidity assessments were missing.

Apart from the planning, the main shortcomings identified in the process were the fact that joint risk assessment reports were not circulated prior to the college meeting, or were circulated very late, or that individual assessments were not included in the group risk assessment report.



2.8.3 Joint decision for liquidity

85. By the end of January 2015, only seven of the 22 closely monitored colleges had agreed and finalised⁸ the liquidity joint decision. The remaining colleges had agreed on the content and were in the process of finalising their decision. No cases of disagreement have been reported so far this year.
86. Compliance with the one-month period required by the CRD has been an issue this year. So far, of the seven joint decisions that have been finalised, four were reached within this time period and three joint decisions took up to two months to be finalised. It is expected that the majority of the remaining liquidity joint decisions will also fail to comply with the one-month period.⁹ Overall the quality of the process of reaching the liquidity joint decision can be assessed as satisfactory. Almost all of the proposed decisions were broadly consistent with the risk assessment performed and agreed by college members and, in general, their articulation has been sufficiently discussed. However, an aspect that needed improvement was the timely circulation of the draft joint decision proposals prior to the college meetings and/or conference calls.
87. EBA staff also observed some important drawbacks in the process followed by some colleges that impacted the quality and depth of the discussions held in a multilateral format. In some cases, specific proposals for the liquidity joint decision were not distributed and no time

⁸ For this report and the analysis of compliance with the one-month period specified in the CRD, EBA staff considered the joint decision as finalized when the consolidating supervisor had received written evidence of agreement from all relevant competent authorities and the internal approval procedure on the level of consolidated authority was finished.

⁹ In some of these joint decisions, the one-month period had not been triggered because the final risk assessment report had not been distributed.

was left for the discussions. In others, no documentation (including the risk assessment reports on liquidity) was distributed ahead of the meeting.

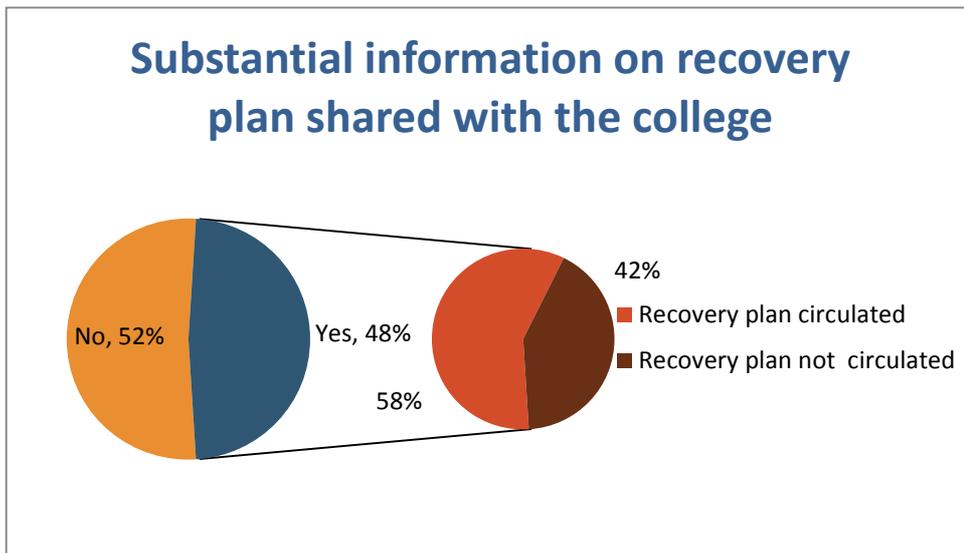
88. Finally, the EBA noted that considerable bilateral communication took place in a number of cases this year. The EBA considers it good practice to ensure that proposals are sufficiently discussed by all members of the college and discourages the replacement of informed and meaningful multilateral discussion with bilateral communication.
89. There is still significant room for improvement on the joint decision document for liquidity. The main shortcomings observed were related to the use of one single document for the joint decision on capital and liquidity, the fact that no conclusion was made on the need for measures, and the insufficient coverage and reasoning of the joint decision.
90. Some colleges have used a single document for the joint decision on capital and liquidity. However, the CRD requires that two joint decisions are reached—a capital joint decision and a liquidity joint decision—and that these joint decisions are included in two separate documents in accordance with the requirements for each joint decision document provided in the implementing regulation. Another reason for having two separate documents is that CRR waivers are applied differently for capital requirements than for liquidity requirements (e.g. liquidity subgroup).
91. Another area for improvement was the coverage of entities. In a number of colleges, several institution for which no waiver was granted have not been individually included in the joint decision document. Pursuant to Article 1 of Commission Implementing Regulation (EU) No 710/2014, the joint decision needs to contain the articulation of the decision for all the entities that are not subject to waivers, even if the decision is that the liquidity is adequate and no liquidity measures are needed.
92. Finally, further improvements were needed in the reasoning of the joint decision. The main weakness observed was a lack of information in cases where liquidity was assessed as adequate both at group and individual level. Jointly agreed measures were reasonably well explained.

2.9 Crisis management framework

93. With the implementation of the new recovery and resolution framework under the BRRD in January 2015, supervisory colleges are now required to undertake significant additional functions. Recovery planning — in terms of assessment of recovery plans and achievement of joint decisions — becomes a regular task for colleges. In addition, the establishment of resolution authorities and resolution colleges requires supervisory authorities and their colleges to cooperate effectively with these new parties to ensure a consistent approach to recovery and resolution planning for firms.

2.9.1 Recovery planning

94. Ahead of the BRRD implementation, the EBA intensified its efforts to contribute and actively participate in the development and coordination of effective recovery plans. During 2014, the EBA finalised the Single Supervisory Handbook module on the assessment of recovery plans. This provides supervisors with a practical guide on best practices for organising and conducting the assessment and reaching joint decision on group plans.
95. In February 2014, the EBA presented a paper to the BoS, which compared the recovery plans of 20 major cross-border banking groups. The topics addressed were governance arrangements, indicators and early warning signals, scenarios and recovery options. The exercise provided supervisory authorities with insights into best practices and benchmarks to assist in their assessment of individual plans.
96. The exercise demonstrated that significant progress had been made by European banking groups in the development of plans, and that they were broadly following formats specified by the Financial Stability Board and the EBA. However, there remained scope for improvement and greater harmonisation in terms of how the topics were addressed.
97. Given the benefits accruing from the exercise, the EBA undertook a second exercise focused on how critical economic functions and core business lines had been dealt with. Findings were presented to the BoS in December 2014. This exercise identified that the two issues were only addressed in approximately half of the plans reviewed. Where they were dealt with, the analysis conducted was generally at a high level although a tendency to confuse the terms was evident in a number of cases. However, it was noted also that most of the plans examined had been prepared before the introduction of the BRRD and future versions would therefore be expected to be more comprehensive.
98. As the BRRD was not yet in force in 2014, EBA staff identified substantial variation in the approach taken by consolidating supervisors to the sharing of recovery plan information and the discussion of recovery plans within the framework of college meetings. Altogether 12 of the 25 'closely monitored' colleges held in-depth recovery planning discussions complemented by full sharing of the recovery plans for seven of those colleges, discussions in eight colleges were high level with limited sharing of recovery plan information. EBA staff noted that, in some colleges, specific discussions on recovery plans were postponed until 2015 to align with BRRD requirements. Greater convergence and consistency of practices with regard to recovery planning is expected this year.

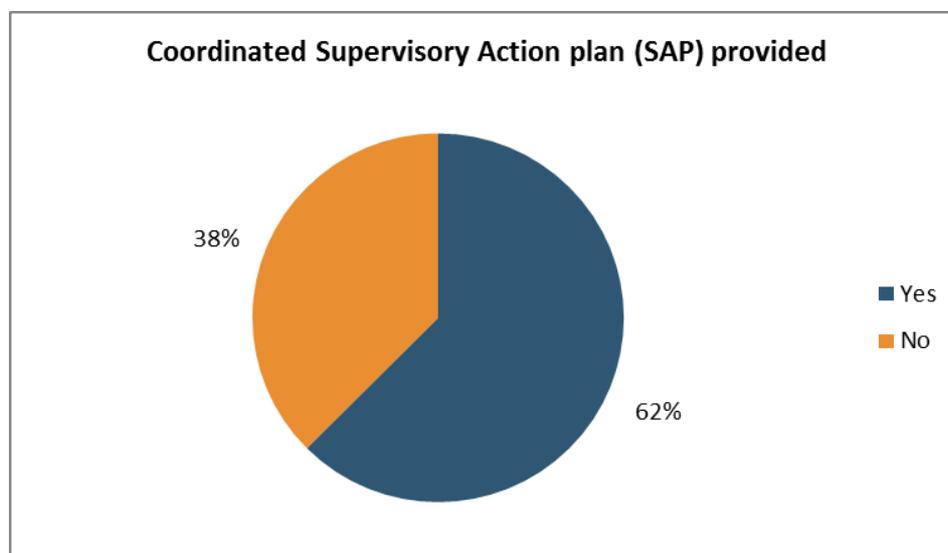


2.9.2 Resolution activities

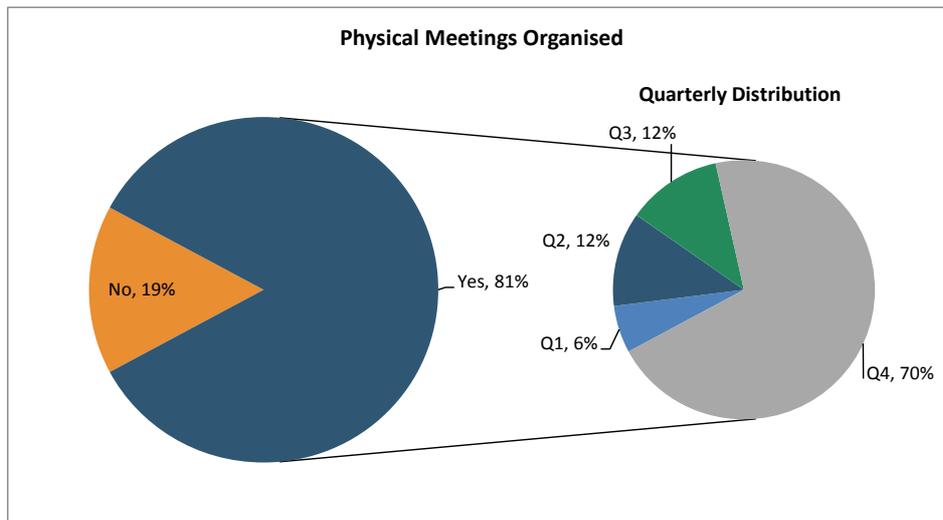
99. In 2014, the EBA attended CMG meetings for 15 major banking groups, participated in a resolvability assessment process (RAP) for selected European G-SIFIs and reviewed a number of cooperation agreements.
100. Other resolution-related activities included an EBA survey sent to resolution authorities on certain organisational aspects (operations, resourcing and financing) of establishing a national resolution authority. The survey results provided benchmarking information and information on emerging trends in Member States.

3. Functioning of colleges monitored on a thematic basis and other colleges

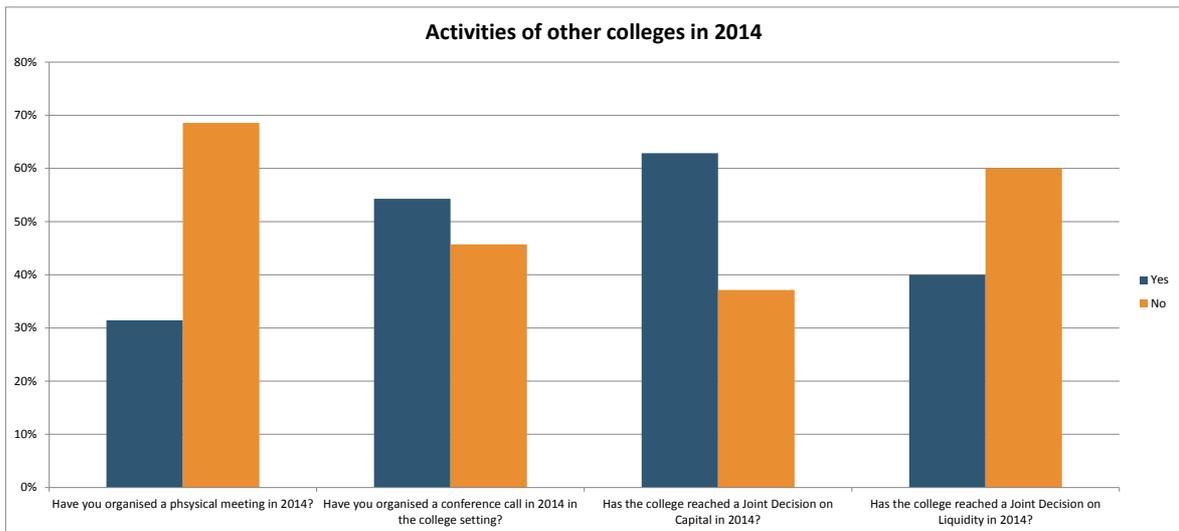
101. 63% of colleges monitored on a thematic basis provided the coordinated supervisory action plan to the EBA. Six colleges have not provided the plan, though two of these colleges ceased to exist in the course of 2014 since all entities in the cross-border banking group were under SSM supervision.



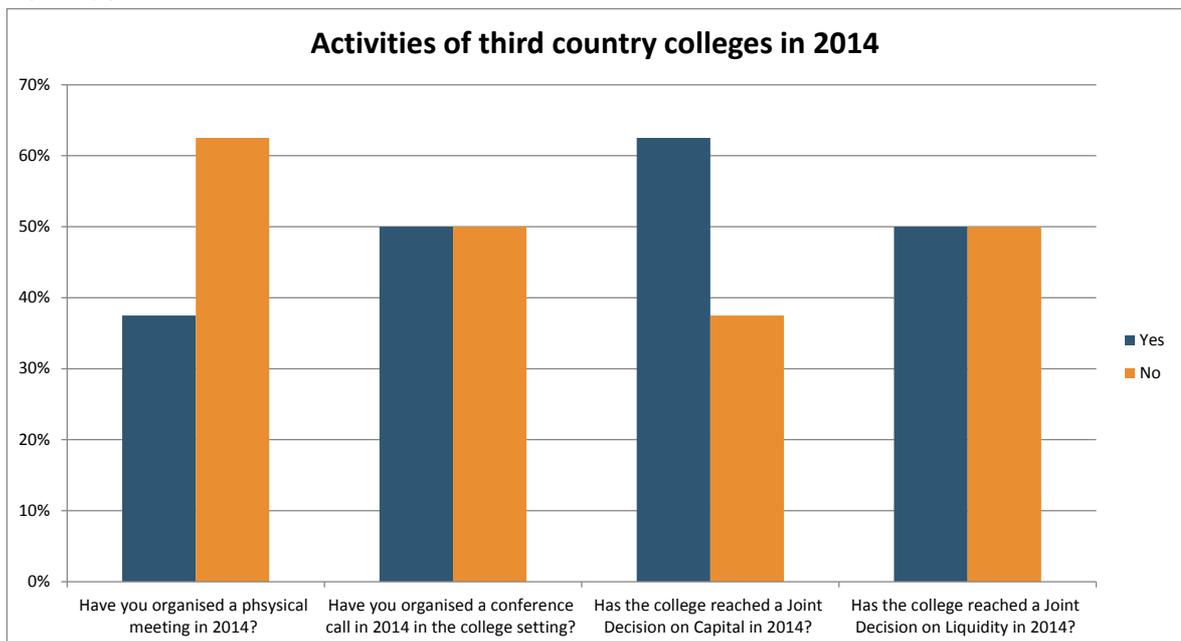
102. The vast majority of colleges followed on a thematic basis organised college meetings during 2014. Some of these banking groups underwent significant restructuring and this affected the structure of the banking groups, including foreign subsidiaries and entities. Consequently, some colleges notified the EBA of the suspension of their college activities. The EBA typically interacted with the thematic colleges for specific topics, depending on important changes in the underlying banking groups.



103. Only one college out of all of the thematic colleges reached a joint decision in 2014. The level of completeness of the capital and liquidity joint decision processes were at an advanced stage in six colleges by the end of January, with the joint decisions having been agreed in principle.
104. For EEA colleges that are not monitored individually or on a thematic basis, a ‘group-based’ approach was introduced in 2013. This means that the EBA does not monitor the activities of these colleges individually, but instead approaches them as a group when disseminating information or obtaining updates. The same approach applied to colleges established for banking groups active in the EEA with a third-country parent.
105. Significant reshaping characterised the operation of other colleges in 2014, as many of these colleges ceased to exist due to the move to ECB SSM supervision or due to the sale of subsidiaries.
106. The EBA observed an increase in the activities of the other colleges last year. While in 2013 a total of 54% of the other colleges engaged in either physical meetings or conference calls, in 2014 more than half of the colleges organised conference calls and one-third held physical meetings. The EBA attended seven conference calls of these colleges in 2014, specifically those related to the AQR and stress tests or to the capital plans.
107. Furthermore, almost two-thirds of other colleges reached a joint decision on capital in 2014, 7% more than in 2013. The fact that colleges gained experience with capital joint decisions over the past few years is reflected in the activities of other colleges, as far more colleges reached joint decisions on capital (63%) than on liquidity (40%).



108. Three of the nine colleges established for banking groups active in the EEA with a third-country parent organised physical college meetings, and an additional four colleges held conference calls. As many as 63% reached joint decision on capital, while 50% agreed on the liquidity joint decision.

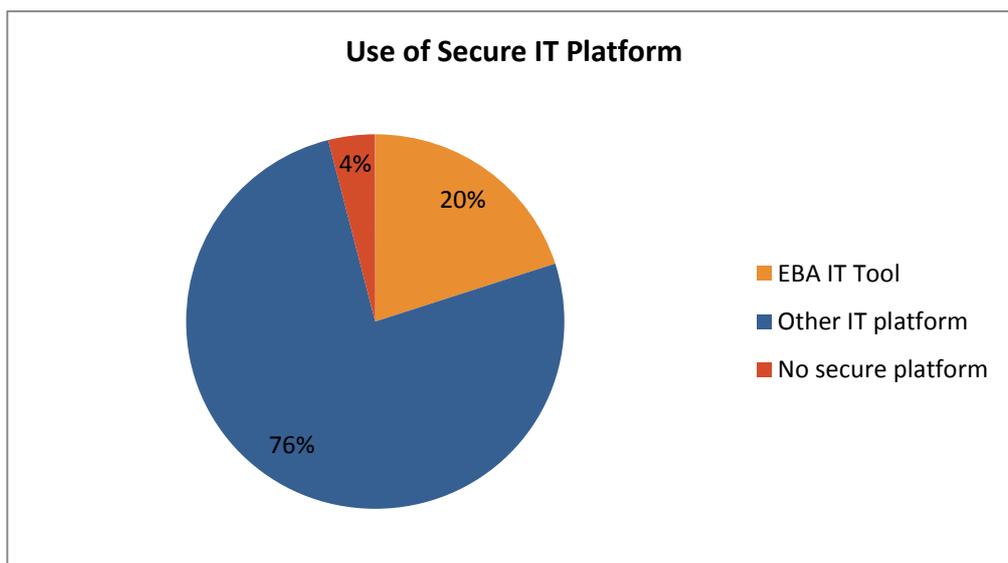


4. Mediation

109. The EBA successfully assisted competent authorities in two binding mediation cases in 2014. These cases have been important in facilitating ongoing cooperation in colleges and dialogue between supervisory authorities.

5. IT platform for exchanging information

110. For most of the closely monitored colleges, competent authorities are using a secure IT platform for communication within the college.



111. EBA staff observed that, while for some colleges all information is passed through the secure IT platform, for a few colleges it is rarely used and information is sent via (secure) e-mail.

112. The importance of colleges having a secure IT platform was clearly demonstrated at the end of the EU-wide stress test exercise when consolidating supervisors needed to distribute the results securely to college members prior to the official publication of the results. Some consolidating supervisors experienced issues due to the lack of a secure IT platform, or due to the fact that the host supervisors did not have up-to-date user access to the platform. Consolidating supervisors wishing to share the confidential stress test data only with the EU host supervisors experienced issues when using college tools that do not allow selected access to be granted to single authorities for specific subsets of information.

113. The EBA IT collaboration platform is available to all competent authorities as a secure IT platform that can be used for the exchange of confidential information within the college context.

5.1 EBA IT platform

114. The EBA included a project to migrate the EBA IT collaboration platform in the 2014 program management plan and IT strategy. The goal of the project was to transfer the collaboration platform from the Banque de France (BdF) to the EBA. The project was governed by strong IT security standards, aligned with the Commission's policies on security of information systems. The collaboration platform, which was previously run and supported by BdF, was successfully moved to the EBA structure with a go live date of 15 December 2014. The EBA now has sole responsibility for the operation of and support for the tool, both from a technical and operational perspective, as well as for providing functional and user support.

Annex I – Update Action Plan for Colleges for 2014

Annex II – EBA Supervisory Colleges Action Plan for 2015

Annex II – EBA Supervisory Colleges Action Plan for 2015

1. Each year, the EBA sets out a Supervisory Colleges Action Plan containing actions to be undertaken by both the EBA and consolidated supervisors and competent authorities. The action plan outlines:
 - a. key risk topics for supervisory attention in 2015;
 - b. the key tasks for supervisory colleges;
 - c. how best to align with the new standards on college functioning;
 - d. how best to achieve joint decisions on capital, liquidity and recovery plans;
 - e. mapping of cross-border colleges.

In this context the priority outcomes for colleges in 2015 are their re-establishment under the new RTS on the functioning of colleges, the successful completion of joint decisions on capital and liquidity and, for the first time, the assessment of group recovery plans.

Introduction

2. The EBA is tasked with contributing, promoting and monitoring the efficient, effective and consistent functioning of colleges of supervisors across the EU. Colleges of supervisors play an important role in the effective supervision of cross-border groups and have been a vital forum for the coordination of supervisory activities, sharing of information and reaching joint decisions.
3. On an annual basis, the EBA establishes a Supervisory Colleges Action Plan. The 2015 EBA Supervisory Colleges Action Plan provides authorities responsible for the supervision of credit institutions ('competent authorities') with a set of objectives and deliverables expected from colleges of supervisors in line with their role and tasks defined in Directive 2013/36/EU (CRD) and Directive 2014/59/EU (BRRD), as well as tasks to be completed by the EBA to support and monitor colleges in these processes.
4. During the development of the 2015 Supervisory Colleges Action Plan, the EBA has taken into account the changes in the institutional setting for Eurozone banks that moved to ECB SSM supervision, as well as changes in EU legislation (BRRD and binding technical standards on the operational functioning of colleges).

5. The assessment of third-country equivalence for confidentiality and professional secrecy under the CRD is an important issue that is relevant to colleges and that the EBA will continue to work on in 2015. This work is being undertaken by the Network on Equivalence, which reports directly to the BoS.

1. Legal framework for colleges of supervisors

6. Articles 51 and 116 of the CRD mandate the EBA with the development of draft binding technical standards to specify general conditions (RTS) and the operational functioning (ITS) of the colleges of supervisors. These draft technical standards were completed by the EBA in December 2014.
7. The RTS and ITS on functioning of supervisory colleges together with ITS on the joint decision process for institution specific prudential requirements issued as **Commission Implementing Regulation (EU) No 710/2014** (ITS on capital and liquidity joint decisions) provide the competent authorities with a complete legal framework for the functioning of colleges of supervisors.
8. The EBA Guidelines for common procedures and methodologies for the supervisory review and evaluation process (SREP guidelines) were finalised in December 2014. The SREP guidelines will introduce a common SREP framework, including consistent methodologies for the assessment of risks to capital and risks to liquidity, and for the assessment of capital and liquidity adequacy. This is essential both to achieve more consistent prudential outcomes across the European Union, and for reaching joint decisions on the capital and liquidity adequacy of cross-border EU banking groups. The guidelines are expected to be applied by 1 January 2016, but the EBA will start working with competent authorities to prepare for the implementation.

2. New institutional setting

9. On 4 November 2014, the SSM was launched and the ECB took over supervisory responsibility for banks in the euro area. This new institutional setting has a material impact on the composition of colleges of supervisors established in the EU. Colleges of supervisors will continue to play an important role for banks with a presence in both SSM and non-SSM countries. The EBA will continue its work in colleges of supervisors to improve supervision of European cross-border banking groups, to ensure effective cooperation between SSM and non-SSM competent authorities and to ensure appropriate cooperation with third-country supervisory authorities.
10. The BRRD entered into force on 1 January 2015 and introduces additional tasks for competent authorities of cross-border institutions. Under the framework of colleges of supervisors, an assessment and joint decision on group recovery plans will have to be reached. Co-operation between supervisory authorities and resolution authorities, as new authorities with resolution powers, will be organised under the framework of newly

established resolution colleges, which will bring additional complexity to the functioning of colleges of supervisors since members will also be members of resolution colleges.

3. Colleges Action Plan for 2015

3.1 Key topics for supervisory attention in 2015

11. The EBA's work on risks and vulnerabilities in the European banking system aims to identify the main forward-looking view on risks that are of concern to the regulatory and supervisory community. Based on the outcome of this work and on the outcome of other relevant policy work, competent authorities supervising cross-border banking groups under the colleges framework should pay particular attention to the following topics in 2015:
- i. **Credit risk and quality of assets** – AQR results have provided more clarity on credit risk, but asset quality remains a significant concern given the weak macro environment. Competent authorities should closely monitor changes in provisions reflecting the findings from the 2014 AQR exercise as well as weaknesses identified in credit risk management;
 - ii. **Capital position** – Assessment of capital plans by supervisors, and in particular banks that failed the EBA stress tests, as well as a detailed review of the required level of capital under SREP should support the preservation of strong capital positions of European banks;
 - iii. **Impact of geopolitical risks** (e.g. Russia and Ukraine);
 - iv. **IT risk and data quality** – IT risk appears to be increasing due to the vulnerability of outdated systems to cybercrime and outages. The AQR exercise also uncovered important findings on data quality issues. Competent authorities should pay appropriate attention to this risk and include relevant supervisory activities in their 2015 supervisory plans;
 - v. **Conduct risk** – Evaluation of conduct risk should be incorporated into the 2015 supervisory activities together with monitoring of improvements in corporate governance in banks to ensure ethical standards are at the expected level;
 - vi. **Supervisory benchmarking** – Competent authorities are to assess the quality of internal approaches of institutions in accordance with Article 78 of the CRD and the provisions included in the RTS on supervisory benchmarking. These assessments should take into account the EBA benchmarking report, which should serve as the basis to investigate in greater detail areas in which an institution appears to deviate from its peers.
 - vii. **Remuneration** – Assessment of institutions' compliance with the limitation of the ratio between variable and fixed remuneration components (bonus cap) should be also included in the 2015 supervisory activities as a follow up to the EBA Opinion regarding the principles on remuneration policies of credit institutions and investment firms and the use of allowances.

3.2 Tasks for supervisory colleges in 2015

12. Colleges of supervisors are expected to continue to improve the general cooperation and convergence in 2015 and to ensure performance of all tasks required by the relevant legal framework. The main tasks arising from the legal requirements for supervisory colleges in 2015 include:

- i. alignment of colleges' functioning with the new RTS and ITS on the operational functioning of supervisory college and in particular:
 - a. written cooperation and coordination arrangements
 - b. mapping of supervisory college structure
 - c. college supervisory examination programme (Article 99 of the CRD)
 - d. regular college interaction (activities and meetings)
- ii. joint group risk assessment (Article 97 of the CRD)
- iii. joint decision on capital (Article 113(1)(a) of the CRD)
- iv. joint decision on liquidity (Article 113(1)(b) of the CRD)
- v. Assessment and joint decision on group recovery plans (Article 8 of the BRRD).

13. The next section provides further detail on these key topics and tasks and all actions are summarised in a table in Annex I.

14. It is important to note that the EBA expects competent authorities for all colleges to complete the tasks as specified in the action plan for supervisory colleges. However, only the consolidating supervisors of the 'closely monitored' colleges and the 'colleges followed on a thematic basis' are required to submit certain information to the EBA¹⁰. This is clearly indicated for the different tasks specified in Annex I.

3.3 Alignment with the RTS and ITS on the operational functioning of supervisory colleges

15. From 2015, the functioning of colleges of supervisors will be determined by the draft RTS and ITS. The draft RTS specify general conditions for the establishment and functioning of colleges of supervisors, while the draft ITS establish important procedures to structure and facilitate the interaction and cooperation between the consolidating supervisor and the relevant competent authorities. These technical standards will replace the CEBS guidelines on the operational functioning of colleges (GL 34).

¹⁰ The EBA divides all EU colleges into three groups for monitoring purposes: 'closely monitored colleges', 'colleges monitored on a thematic basis' and 'other colleges'. Based on the mapping exercise of all EU colleges provided by the competent authorities, EBA revises the list of colleges assigned to each group on an annual basis, and communicates these updates to the relevant colleges and the BoS.

16. The key outcome of the new draft ITS and RTS on the functioning of colleges is improved cooperation between competent authorities due to a higher degree of transparency and information sharing during normal going-concern supervision and emergency situations. The technical standards provide a more structured and comprehensive approach to college functioning, which is needed to ensure that existing tasks, such as the establishment of the coordinated supervisory action plan, and new tasks, such as the assessment of group recovery plans, are fully coordinated and performed consistently across colleges.
17. The new technical standards on the functioning of colleges provide a detailed framework for college cooperation in going concern both for day-to-day supervision and in preparation for and during emergency situations. Colleges of supervisors under the coordination of consolidating supervisors are expected to discuss and align existing college practices with the requirements of the new RTS and ITS on the functioning of colleges of supervisors.

3.3.1 Written cooperation and coordination arrangements

18. Consolidating supervisors are required to prepare a proposal for written cooperation and coordination arrangements and communicate it to the other members of the college for their views. As the new binding technical standards include detailed provisions for the organisational and operational functioning of colleges of supervisors, the content of the college-specific written agreement should be more operational in nature and should consist mainly of specific implementation details for these provisions.
19. The required content of the written cooperation and coordination arrangements is included in Article 4 of the draft RTS and set out in further detail in the new template for the written cooperation and coordination arrangements, included in the draft ITS. New finalised written coordination and cooperation arrangements should be provided to the EBA. To support consolidating supervisors in determining college members and observers as detailed in the technical standards, the EBA will in 2015 continue the work started in 2014 to assist the competent authorities in assessing third-country equivalence for confidentiality and professional secrecy under the CRD. Over the next three years, the EBA Network on Equivalence will assess 32 countries in three rounds. The first round of results should be available by the end of Q1 2015. The EBA intends to publish the results as a recommendation, providing national supervisors with guidance on inviting third-country supervisory authorities to participate in EEA supervisory colleges.

3.3.2 Mapping of supervisory college structure

20. Consolidating supervisors of closely monitored colleges will be asked to submit to the EBA the mapping template included as an annex to the RTS and ITS on the operational functioning of supervisory colleges. For the first time, one common template will be used for the needs of the consolidating supervisor and other college members including the EBA. More details on the overall mapping exercise can be found in section 4.6.

3.3.3 College supervisory examination programme

21. The content of the college supervisory examination programme should be based on Article 16 of the RTS on functioning of colleges, and should include:

- a. the areas of joint work as they have been identified as a result of the joint risk assessment and joint decision process or as a result of any other college activities undertaken;
- b. the supervisory examination programmes of the consolidating supervisor and the other members of the college;
- c. the areas of focus for the supervisory college and the associated planned activities, including planned on-site inspections;
- d. the members of the college responsible for undertaking the planned supervisory activities;
- e. the expected timelines, in terms of both timing and duration, for each of the planned supervisory activities.

22. While 2014 was a transitional year with many staff involved in the AQR and stress test, which limited the number of staff available for other topics and resulted in other tasks (such as on-site inspections) being moved towards the end of the year, the EBA observed that there is still room for improvement in the establishment and successful implementation of the supervisory examination programme. This is particularly evident when considering the links between the outcome of the joint risk assessment and the supervisory examination programme. In 2014, many colleges still approached this task as a compilation of the individual supervisory actions planned by college members.

23. When preparing the college supervisory examination programme for 2015, colleges of supervisors should consider all findings and observations from the AQR and stress test performed in 2014 as well as the key topics for supervisory attention included in section 4.1. College supervisory examination programmes should be shared within the college and submitted to the EBA so that implementation of the programme can be followed and a decision can be made on participation in joint tasks where relevant.

3.3.4 Regular college interaction

24. Actions related to the regular college activities include recurring actions, in particular the organisation of at least one physical meeting (requirement included in ITS on functioning of colleges) and other forms of college dialogue, regular exchange of agreed indicators and other relevant information, the joint risk assessment and joint decisions process. The EBA should be notified of planned college meetings and other forms of college dialogue.

25. Whereas consolidating supervisors need to organise at least one physical meeting per year, the frequency and type of college interaction should be sufficient to contribute to better overall supervision of the banking group. In previous years, EBA staff observed the need for closer cooperation in some colleges, and in 2014 took the initiative to communicate to the consolidating supervisors of all closely monitored colleges the expected level of cooperation for their college, taking into account the systemic importance and international presence of the banking group. The EBA will continue to engage with colleges on the level of college cooperation in 2015.
26. Regular college interaction will be determined by the college examination programme and the time plans for the group risk assessment and joint decisions, but colleges of supervisors are expected to incorporate into their dialogue the ongoing review of internal models, including the use of EBA benchmarking report, as well as the evaluation of compliance of institutions with the limitation of the ratio between variable and fixed remuneration components. The results of the supervisory benchmarking of internal models and possible corrective measures must be submitted to the EBA and shared in supervisory colleges in accordance with Article 117 of the CRD. Simple, standardised templates should be used for the submission to the EBA. On the topic of remuneration, the use of non-routine remuneration components and supervisory measures to ensure the correct allocation should be discussed as a minimum.

3.4 Joint group risk assessment and joint decisions on capital and liquidity

27. The joint group risk assessment and joint decisions processes should follow the process and templates included in the ITS on the joint decision process for institution-specific prudential requirements (capital and liquidity) and taking into account the SREP guidelines. Prior to the start of the joint decision process, the consolidating supervisor and the relevant competent authorities shall agree on joint decision timetables for each of the two joint decisions as part of the planning process. Colleges are required to prepare to submit the agreed timetables to the EBA. As highlighted in the technical standards, and observed by EBA staff, the planning of the joint decisions processes is an essential element of a successful process for reaching timely joint decisions. As observed by EBA staff in 2014, it is equally important to inform college members of any changes in the initial timelines to ensure all competent authorities involved can adjust their work plans accordingly.
28. Supervisors are now familiar with the new templates for the joint group risk assessment, joint liquidity risk assessment and joint decisions, and they were widely used in the 2014 contributing to further harmonisation of the process. Although the SREP guidelines only need to be implemented from 2016, competent authorities are encouraged to start applying them in 2015 to increase consistency in the methodologies underlying the assessments. The forthcoming SREP guidelines introduce consistent methodologies for the assessment of risks to capital and risks to liquidity, and for the assessment of capital and liquidity adequacy. The EBA also encourages the use of non-binding templates for two joint decision documents.

3.5 Assessment and joint decision on group recovery plans

29. From 1 January 2015, with the entry into force of the BRRD, group recovery plans should be assessed within the framework of colleges of supervisors, and the relevant competent authorities are expected to reach a joint decision on the review and assessment of these plans. The assessment should be completed within six months of the submission of the plan by the banking group to the consolidating supervisor. The joint decision is expected to be reached within four months of the consolidating supervisor sharing the group recovery plan with relevant competent authorities (in accordance with Article 7(3) of the BRRD). It is important for colleges to establish a clear timetable for the assessment and joint decision on group recovery plans. This timetable should also be submitted to the EBA, which will follow up on the process and outcome of these joint decisions.
30. To assist supervisors with this new task, the EBA has developed a module of the Single Supervisory Handbook on the assessment of recovery plans, which covers both the process and methodologies for the assessment of individual and group recovery plans, and provides guidance on the organisation of the joint decision process of the group recovery plans. The guidance will also be supplemented by two templates that can be used to streamline the joint decision process. EBA staff will provide training on the methodology for the assessment of the recovery plans included in the Single Supervisory Handbook.
31. EBA staff will continue to compare recovery plans of European banking groups to assist competent authorities in discussions on the assessment of group recovery plans and in the process of reaching joint decision.

3.6 Mapping of cross-border banking groups in the EEA and selection of colleges monitored by EBA staff

32. Competent authorities are required to submit information to the EBA on the presence of cross-border banking groups in their jurisdictions based on a template on the establishment of colleges in their jurisdictions (as used in 2014). EBA staff will be able to use this information to update the list of 'closely monitored colleges' and 'colleges followed on a thematic basis' for 2015. The approach of using different levels of monitoring for the three groups: 'closely monitored colleges', 'colleges followed on a thematic basis', and 'other colleges', was introduced by the EBA in 2014. The new approach proved fruitful and enabled closer monitoring and cooperation where appropriate as well as a more efficient use of resources, and will therefore continue in 2015.
33. Consolidating supervisors of closely monitored colleges will be asked to submit the mapping template found in the annex of the RTS and ITS on the operational functioning of supervisory colleges to the EBA.
34. The mapping exercise will be particularly important in 2015 in view of the changes in college composition further to the ECB SSM supervision. It is essential to have the correct

perimeter of the college, identifying which are the subsidiaries and significant branches and whether or not they received any waivers from capital or liquidity requirements, as this will impact which competent authorities will be part of the joint decision on institution-specific requirements.

35. As regards the non-EEA cross border banking groups present in the EEA, the EBA will further assess options for encouraging competent authorities to include EEA entities of third-country banking groups in a closer supervisory collaboration at the EEA level.

3.6.1 EBA engagement with 'other colleges'

36. The 'other colleges' are EEA colleges that are not monitored by EBA staff on an individual basis. For these colleges, a group-based approach is used in EBA communication with the consolidating supervisory authorities.

4. Next steps and EBA assistance

37. In 2015, EBA staff will focus on assisting colleges in applying the new technical standards and other relevant parts of the single rule book. To support competent authorities in implementing the new frameworks, EBA staff will also provide training activities for supervisors involved in colleges work. EBA staff will continue, as part of its contribution to college work, to inform supervisory authorities involved in colleges on a regular basis about other relevant policy developments.
38. In 2014, the EBA launched a quarterly newsletter to provide home and host supervisors with regular updates on EBA policy work related to supervisory cooperation, as well as relevant risk analysis and planned workshops or trainings. While the newsletter is distributed to a wide distribution list of home and host supervisors, it is particularly useful for the consolidating supervisory authorities of the other colleges that are not in close individual contact with the EBA. The EBA intends to continue issuing the colleges' newsletter on a regular basis in 2015, as the initiative was welcomed by supervisors.
39. Under the new BRRD framework, resolution authorities will need to establish resolution colleges in 2015. This will impact competent authorities in terms of resources to devote to participating in resolution colleges, building expertise in recovery and resolution planning, arranging how the interaction with resolution authorities will take place, and standing ready to provide input to the resolution colleges as foreseen in the BRRD.

Specific actions for supervisory colleges in 2015

| Action plan for colleges of supervisors for 2015 | | | | | |
|---|---|----------------------|---------------|--|----------|
| | Action required from competent authorities | Template | Deadline | Action required from EBA staff | Deadline |
| Mapping of cross-border banking groups and colleges in the EEA | | | | | |
| EEA cross-border banking groups | Competent authorities to notify the EBA of the cross border banking groups under their jurisdiction. | Annex II Table I (a) | By 3 February | EBA staff to collect and maintain a database with all EEA cross-border banking groups. | Ongoing |
| | Consolidating supervisors to notify the EBA of the establishment of colleges for the banking groups meeting CRD requirements. | Annex II Table I (a) | By 3 February | EBA staff to collect and maintain a database with all colleges established in the EEA. | Ongoing |
| | If colleges have not been set up, competent authorities to notify the EBA of reasons for non-establishment and intended follow-up actions. | Annex II Table I (a) | By 3 February | EBA staff to follow up on cases in which colleges have not yet been set up. | Ongoing |
| Cross-border banking groups operating in the EEA with a parent in a third country | Competent authorities to notify the EBA of the cross-border banking groups with a parent in a third country operating in their jurisdiction. | Annex II Table I (b) | By 3 February | EBA staff to collect and maintain a database with all cross-border banking groups operating in the EEA with a parent in a third country. | Ongoing |
| | Consolidating supervisors to notify the EBA of the establishment of colleges for cross-border banking groups operating in the EEA with a parent in a third country. | Annex II Table I (b) | By 3 February | EBA staff to collect and maintain a database with all colleges for cross-border banking groups operating in the EEA with a parent in a third country | Ongoing |

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|--|--|--|--|---|-------------|
| | | | | EBA staff to assess the options for organising sub-consolidated supervisory collaboration at the EEA level for cross-border banking groups operating in the EEA with a parent in a third country. | By 15 April |
|--|--|--|--|---|-------------|

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|---|--|----------------------|-------------|---|------------------|
| Closely monitored colleges | | | | EBA staff to propose a selection of colleges that will be closely monitored and a selection of colleges that will be followed on a thematic basis, based on a set of quantitative and qualitative criteria. | By 16 February |
| | Consolidating supervisors for closely monitored colleges and colleges followed on a thematic basis to submit to the EBA details of college composition, structure and contact persons. | Annex II Table I (c) | By 27 March | EBA staff to collect and maintain a database with all information on EEA closely monitored colleges and colleges followed on a thematic basis. | Ongoing |
| Alignment with new RTS and ITS on functioning of colleges of supervisors | | | | | |
| New ITS and RTS on functioning of colleges | | | | EBA staff to provide training on new draft ITS and RTS on functioning of colleges targeted especially to all consolidating supervisors. | To be determined |

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|---|---|--|------------|---|---------|
| Written cooperation and coordination arrangements | Consolidating supervisors for closely monitored colleges and colleges followed on a thematic basis to provide the EBA with the new written cooperation and coordination arrangements for the college once they are finalised and agreed with the college members in line with the draft ITS and RTS on the functioning of colleges. | Annex II of draft ITS and RTS on the functioning of colleges | By 30 June | EBA staff to monitor the elaboration of new written coordination and cooperation arrangements for the closely monitored colleges and for the colleges followed on a thematic basis. | Ongoing |
|---|---|--|------------|---|---------|

| Regular college activities | | | | | |
|---------------------------------|--|--|----------------|--|---------|
| College meetings and activities | Consolidating supervisors for closely monitored colleges and colleges followed on a thematic basis to organise at least one physical meeting and other college activities and notify EBA of these. | | By 31 December | EBA staff to monitor the organisation of college meetings and arrange for participation in relevant meetings, and to provide feedback on college meetings. For closely monitored colleges, EBA expectations on the frequency of college interaction will be communicated to the consolidating supervisor on an individual basis. | Ongoing |

| | | | | | |
|-------------------------------------|--|--|-------------|--|---------|
| Coordinated supervisory action plan | Consolidating supervisors for closely monitored colleges and colleges followed on a thematic basis to prepare within the college the coordinated action plan for 2015 and to submit the plan to the EBA. | | By 27 March | EBA staff to collect and maintain a database with all college supervisory action plans, and follow up on the implementation of the action plans. | Ongoing |
|-------------------------------------|--|--|-------------|--|---------|

| Joint risk assessment and joint decision for capital | | | | | |
|--|--|--|--|--|---------|
| Timeline | Consolidating supervisors for closely monitored colleges and colleges followed on a thematic basis to submit to the EBA the timeline for reaching joint decision on capital adequacy (as specified in the ITS on joint decisions on institution-specific prudential requirements, and respecting the one year cycle) prepared and agreed by the college. | | Within three months of reaching the previous JD but no later than 27 March | EBA staff to monitor the roll-out of the agreed timeline for reaching joint decisions for capital. | Ongoing |
| Risk assessment and joint decision documents | Consolidating supervisors for closely monitored colleges and colleges followed on a thematic basis to submit to EBA the draft and final risk assessment and joint decision documents for the joint decisions for capital. | | As per agreed timeline (no later than 12 months after previous JD) | EBA staff to monitor the process and outcome of the joint decisions for capital. | Ongoing |

| Joint risk assessment and joint decision for liquidity | | | | | |
|--|--|--|---|--|---------|
| Timeline | Consolidating supervisors for closely monitored colleges and colleges followed on a thematic basis to submit, to the EBA, the timeline for reaching joint decision for liquidity adequacy prepared and agreed by the college (as specified in the ITS on joint decisions on institution-specific prudential requirements). | | Within three months of reaching the previous JD, but no later than 27 March | EBA staff to monitor roll-out of agreed timeline for reaching joint decisions for liquidity. | Ongoing |
| Risk assessment and joint decision documents | Consolidating supervisors for closely monitored colleges and colleges followed on a thematic basis to submit, to the EBA, the draft and final risk assessment and joint decision documents for the joint decision for liquidity. | | As per agreed timeline (no later than 12 months after previous JD) | EBA staff to monitor the process and outcome of the joint decisions for liquidity. | Ongoing |

| Assessment and joint decision on group recovery plans | | | | | |
|---|--|--|----------------------------------|--|------------------|
| Recovery plans | | | | EBA staff to provide training on the new module of the Single Supervisory Handbook on the assessment of recovery plans and the organisation of the joint decision process of group recovery plans. | To be determined |
| Recovery plans | Consolidating supervisors for closely monitored colleges and for colleges followed on a thematic basis to submit to the EBA the date they expect to receive the group recovery plan from institutions. | | By 27 March | EBA staff to monitor dates for receipt of group recovery plans, which trigger the start of the joint decision process. | Ongoing |
| Recovery plans | Consolidating supervisors for closely monitored colleges and for colleges followed on a thematic basis to submit to the EBA the timeline for reaching the joint decision on the assessment of the group recovery plan. | | As soon as agreed by the college | EBA staff to monitor roll-out of agreed timeline for reaching the joint decision on the assessment of group recovery plans. | Ongoing |

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|----------------|---|--|--|--|---------|
| Recovery plans | Consolidating supervisors for closely monitored colleges and for colleges followed on a thematic basis to submit to the EBA the joint decision on the assessment of the group recovery plan and on whether a recovery plan on an individual basis will be drawn up for institutions that are part of the group (as specified in Article 8 of the BRRD). | | As per agreed timeline (in line with four-month time period) | EBA staff to monitor the process and outcome of the joint decisions on the assessment of group recovery plans. | Ongoing |
|----------------|---|--|--|--|---------|

| Other colleges | | | | | |
|-----------------------------------|--|--|---------|---|---------|
| Communication with other colleges | Consolidating supervisors to notify the EBA of any changes in contact details. | | Ongoing | EBA staff to maintain a contact list for the other colleges. | Ongoing |
| | | | | EBA staff to continue to provide regular updates on EBA policy work, home-host related issues, relevant risk analysis and planned workshops and training for the other colleges on a group basis in the form of a quarterly newsletter. | Ongoing |