



EUROPEAN BANKING AUTHORITY

SUMMARY OF THE EBA
2012 ANNUAL REPORT

**Europe Direct is a service to help you find answers to your questions
about the European Union.**

**Freephone number (*):
00 800 6 7 8 9 10 11**

[*] Certain mobile telephone operators do not allow access to 00 800 numbers or these calls may be billed.

Photo credits:

European Banking Authority, pages 3, 8

Getty Image, page 5

iStockphoto.com/Noam Kahalany, page 6

iStockphoto.com/mathieukor, page 11

More information on the European Union is available on the Internet (<http://europa.eu>).
Cataloguing data can be found at the end of this publication.

Luxembourg: Publications Office of the European Union, 2013

ISBN 978-92-95086-05-0

doi:10.2853/16402

© European Banking Authority, 2013

Reproduction is authorised provided the source is acknowledged.

Printed in Luxembourg

PRINTED ON WHITE CHLORINE-FREE PAPER

SUMMARY OF THE EBA 2012 ANNUAL REPORT





Executive summary

In the short time since its formation at the start of 2011, the European Banking Authority has made a significant contribution towards strengthening financial markets in Europe and harmonising the underlying banking rules. This has been set against the backdrop of a deterioration of Europe's sovereign crisis and consequent market uncertainties, as well as continued global economic concerns.

As such, one of the key steps the EBA took during 2012 was to implement a recapitalisation plan to ensure banks make significant efforts to strengthen their capital position and protect against future shocks – without disrupting lending into the real economy. This boosted market confidence by increasing the transparency of banks' risk exposures including, for the first time, exposure to sovereign debt.

Another key part of ensuring financial stability involved the first work being undertaken in relation to recovery and resolution packages, or 'living wills', to enable banks to fail in an orderly fashion in the event of a future crisis, thereby minimising the risk to insured depositors and preventing a knock-on effect to the wider financial system.

Throughout the year, the organisation continued to play an important role in improving the consistency of supervisory practices and enhanced cooperation between supervisory authorities, in particular those authorities responsible for the supervision of the 40 largest EU cross-border banks.

The following sections in this executive summary highlight some of the key activities and achievements of the EBA over the past year, focusing on the core themes of regulation, oversight and consumer protection. The summary also sets out some of the developments in the EBA's operations themselves as it looks to grow into its enhanced role to fully support the stability of the banking system, provide a level playing field, and safeguard both the transparency of markets and the protection of depositors and investors.

Toward a new regulatory system

In the report year, the EBA further contributed toward the creation of a sounder and safer financial system by developing draft regulatory standards and guidelines which will provide clarity to financial institutions needing to comply with the new Basel III regulatory framework.

In total the EBA produced:

- 14 consultation papers;

- 23 draft regulatory and implementing technical standards;

- 6 sets of guidelines;

- 6 opinions.

In July 2011, the European Commission adopted a legislative package to strengthen the regulation of the banking sector. The proposal replaces the current capital requirements directives with a new directive (known as CRD) and a regulation (CRR) and constitutes another major step towards creating a sounder and safer financial system.

While waiting for the Commission to officially adopt the new regulatory structure, the EBA concentrated on preparing supporting draft regulatory standards and guidelines. As the implementation date for the directive and regulation were postponed into 2013, these standards remain in draft form and could be subject to amendments depending on the final wording of the new proposals.

Banks' 'own funds' were a key area on which the EBA concentrated in 2012. Three consultation exercises and a public hearing were organised across the year, which resulted in the production of 16 technical standards that have been preliminarily endorsed by the Authority's Board of Supervisors.

The EBA also launched a consultation on draft regulatory technical standards (RTS) to harmonise practices of prudent valuation so as to ensure consistency and transparency in the way financial institutions calculate 'fair value' positions. A discussion paper was published and work will continue into 2013.

The proposed CRD empowers the EBA to develop RTS around the levels of salary and bonuses paid to senior bank staff. Remuneration levels should reflect the credit quality of the individual institution and the level to which individual staff members' roles have on the institution's risk profile. A benchmarking exercise held in 2012 revealed a worrying level of variation across the EU in the way the financial institutions work out which of their staff do have a material impact on the firm's risk profile and this will be reflected in the draft standard.

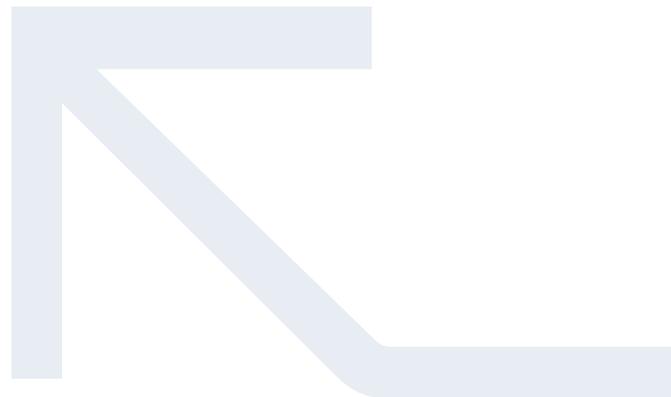
During the year, the EBA achieved adoption by the European Commission of a technical standard on central counterparties, the bodies which sit in between trades in securities markets. This saw the organisation work closely with partners at the European Securities and Markets Authority (ESMA) and the European System of Central Banks (ESCB).

In a further example of joint working, the EBA and the European Securities and Markets Authority (ESMA) conducted investigations into the Euribor rate setting mechanism. The outcomes were published in early January 2013 and have resulted in recommendations being made to the Euribor European Banking Federation. The EBA also produced recommendations for national supervisors on the supervisory oversight of banks participating in the Euribor panel and launched a consultation on principles for benchmark-setting processes in the EU.

A vital role for the EBA is to ensure that the development of the new regulatory environment happens in a transparent manner such that all stakeholders can have confidence in the system. Confidence is also generated when underlying information is collected and assessed in a harmonised way.

Understanding financial institutions' liquidity and leverage positions is vital to the continued smooth running of the system. National authorities require harmonised information on banks' liquid assets (inflows and outflows) and on their leverage ratios. To that end, the EBA issued public consultations on both issues during 2012 in order to help with the development of draft implementing technical standards (ITS).

Public consultations were also issued on the way information is collected on the liquidity and leverage positions of financial institutions. These will help inform draft ITS on both areas.



Preventing regulatory arbitrage

The EBA consultation which received the most responses in 2012 was that on the subject of closing loopholes in regulations relating to uncleared derivative transactions. The discussion paper received more than 70 responses from banks, corporates, insurance companies and supervisors.

Together, the three European supervisory authorities (ESAs) plan to finalise the technical standards on margin requirements for uncleared OTC derivatives as soon as the international principles become available. Producing technical standards in this area remains one of the main EBA priorities for 2013.

Guarding against future shocks

Recovery and resolution plans are a key plank of efforts designed to ensure financial institutions have plans in place to cope with a potential financial shock which could threaten their existence. The EBA has a key role to play in coordinating effective recovery and resolution plans and in minimising the systemic impact of any one institution failing.

In May, the EBA issued a discussion paper (DP) presenting its preliminary views on the structure and key elements of the recovery plans, and a European common template for drafting recovery plans. This was followed up in the second half of 2012 by the issuance of a recommendation from the EBA which was intended to ensure consistency across the EU on the development of recovery plans. It requires 39 major EU cross-border banks to develop group recovery plans and have the plans discussed within the supervisory colleges by the end of 2013.

The EBA delivered an opinion in December 2012 which attempted to address potential inconsistencies between a European framework for resolution and recovery and new initiatives under way by the Committee on Payment and Settlement Systems (CPSS), the Technical Committee of the International Organisation of Securities Commissions (IOSCO) and the Financial Stability Board (FSB).

In 2012, the EBA's work on bank oversight focused on a number of key areas, including: risk assessments; common reporting of regulatory data; risk-weighted assets (RWAs); restoring banks' balance sheets; and the role of colleges of supervisors in the oversight of cross-border banking groups.

Recapitalisation exercise

The stability of European financial markets depends on the ability of market participants to make clear assessments of the continued viability and health of banks within the Union. Following shortly after the stress testing of 2011, the EBA carried out a recapitalisation exercise which forced national supervisory authorities to ensure that banks held a sufficient level of high-quality capital to withstand further deterioration in the economic situation, after having set up an additional buffer against sovereign debt risk.

The EBA identified 27 banks that needed to address a total shortfall of EUR 76 billion by the end of June 2012, while maintaining lending to the real economy. By the end of June 2012, the vast majority of banks involved in the exercise showed a level of Core Tier 1 capital above the 9 % required. Combining the two exercises, a total of EUR 250 billion has been added to banks' balance sheets as a result of the EBA's work.



Increasing transparency

As part of its efforts to assist in restoring confidence in bank balance sheets, the EBA also carried out work on RWAs which was aimed at providing consistency in the way RWAs are calculated across institutions to reflect their true risk profile. RWAs are a measure of a bank's assets or off-balance sheet exposures, weighted according to risk.

The EBA has also been supporting the work of relevant competent authorities in the assessment of asset quality in individual banks. One notable step was initiated in late 2012 to provide common definitions in relation to problems encountered in the repayment of loans. With completion expected in early 2013, the definitions of 'forbearance' and 'non-performing loans' will provide supervisors and colleges with a tool to monitor the asset quality of banks' books on a common basis, and will provide crucial input into future stress tests. The EBA also worked closely with the European Systemic Risk Board (ESRB) to identify instances where accounts or funds may appear to contain more capital than they actually do.

The EBA has also been asked to produce guidelines on transparency requirements and coordinate the identification of best practices regarding covered bonds and other instruments that generate encumbrance. Work on asset encumbrance templates is nearing completion and work has already begun on the development of funding plan templates.

In 2012, the EBA intensified efforts for improving the quality and robustness of the reported data to improve banking supervision. Follow-

ing a public consultation, the EBA worked on finalising common technical standards on supervisory reporting and these will be published once the final text of the CRR/CRD IV is available. The new reporting framework will provide a common base upon which college-related information can be exchanged.

During 2012, the EBA finalised its risk 'dashboard', which provides an overview on the performance of the banking system and uses a colour-code system to easily identify major sources of risks and trends in banks' risk profiles. A firm-specific version of the dashboard will also become an additional tool for the colleges of supervisors.

Supervisory colleges

Colleges of supervisors were established to enhance cross-border supervision of the banking sector, through greater cooperation between national bodies and improved information sharing. They consist of two or more national supervisors and in some cases can include non-European Economic Area (EEA) countries.

The EBA is tasked with supporting the consistent functioning of colleges of supervisors established in the EEA. In 2012, the EBA conducted a mapping exercise, working closely with national competent authorities, to help monitor colleges in a way appropriate to their size and complexity and published a good practices paper for supervisors on joint decisions.

An additional area of activity in 2012 was the assessment of colleges' arrangements for supervisory activities during potential crisis situations. The EBA engagement and guidance led to a significant increase in the number of such crisis supervision frameworks developed by national competent authorities.

The EBA also worked hard to increase harmonisation of college practices in the run up to the development of binding technical standards (BTS) for home-host cooperation and college functioning. The EBA is currently drafting nine technical standards relating to supervisory colleges.



Protecting consumers

While the EBA is mandated to maintain a high level of regulatory supervision over Europe's financial markets and institutions, it also has a key role to play in the protection of individual consumers. In 2012, the organisation looked into the potential risks to investors tempted to venture into complex financial products, such as contracts for difference (CFDs), without having the requisite level of financial knowledge to fully understand the risks involved.

In October 2012, the EBA held its first Consumer Protection Day, an event at which representatives of the banking industry, national supervisory authorities, consumer organisations and academia met and discussed issues related to consumer protection and financial innovation at the European level.

The EBA's consumer trends annual report, published in March 2013, will help define the authority's work programme for 2013. The report identifies new trends and areas of concern emerging for European consumers. The report identified the following issues:

- indebtedness and responsible credit;
- transparency and levels of charges;
- scope of mis-selling of financial products;
- issues arising from specific products such as foreign currency loans;
- payment protection insurance and complex products;
- security of new technologies used for banking services; and
- emerging new forms of liquidity raising.

Operations activities

With continued support from Member States and national supervisory authorities, the EBA has worked hard to ensure it is ready to meet the challenge of fulfilling its mandate in the face of continued uncertainty in the financial sector. In the running of its operations, the EBA is fully committed to ensuring that:

- operational activities are effective and efficient;
- legal and regulatory requirements are met;
- financial and other management reporting is reliable; and
- assets and information are safeguarded.

Policy analysis and coordination

In the context of the EBA's policy analysis and coordination activities, the EBA has been providing the legal analysis and support as well as guidance on impact assessment methodology applied in the preparation and legislative drafting of the EBA policy, regulatory and supervisory products (including technical standards, guidelines, opinions, supervisory recommendations, peer reviews, etc.). The following were among the EBA's coordination activities:

- coordination of the supervisory training activities offered to NSAs: in 2012, 10 sectoral training activities were organised by the EBA, and 13 cross-sectoral seminars and four soft-skill courses were organised jointly by all three ESAs;
- support to the EBA's Banking Stakeholder Group (BSG): in 2012, the BSG held five regular meetings and two joint meetings with the EBA's Board of Supervisors. It has provided eight opinions and one position paper as well as its input through responding to EBA public consultations;
- support to the EBA's Review Panel: in 2012, the EBA's peer review methodology has been agreed. Furthermore, the peer review on the adherence to specific aspects of EBA 'Guidelines on stress testing (CEBS GL32)' has been initiated, which included the circulation of a self-assessment questionnaire by NSAs;
- support, together with other ESAs, to the ESAs' Board of Appeal, created in December 2011;
- contribution to the review of the European System of Financial Supervision conducted by the European Commission as per Article 81 of the EBA regulation, in cooperation with other ESAs;
- coordination of the EBA's policy and supervisory work, both internally as well as with external bodies (such as BCBS and IMF) and EU institutions.

Financial management and procurement

The EBA implemented a number of improvements in 2012 to ensure better management and control of financial resources, including simplified internal processes to increase efficiency. This improvement area was confirmed by internal audits performed during the year. In total, the EBA was 18 % more efficient in terms of spending its overall budget in 2012 than for 2011, with budget execution standing at 89 %.

In 2012, the EBA launched 19 procurement procedures to develop, improve and support the internal infrastructure of the organisation, with the total maximum value forecast for the contracts signed in 2012 in excess of EUR 20 million.



Our staff

With the growing need for a well resourced team, the EBA recruited 28 temporary agents, six contract agents and nine seconded national experts in 2012, bringing the total staff number to 94 by the end of the year. There was a 64 % increase in the number of applicants compared with 2011, showing the high level of public interest in positions at the EBA. Our staff come from 20 countries of the European Union — 44 % are women and 56 % are men.

Information technology

One key area in procurement in 2012 was around IT infrastructure, such as increasing managed data-centre capacity, in anticipation of the increased demands on the EBA. Under a revised IT strategy, the EBA also provided a collaboration tool for colleges of supervisors to simplify joint working between national and EBA experts. This successful programme has seen the number of users double in 2012.

Communication

In addition to traditional press and communication activities to provide the media and stakeholders with easily accessible information, a new website is expected to be launched during the summer of 2013. The EBA organised several events in 2012 to exchange with and gather feedback from stakeholders. These included:

- the first EBA Consumer Protection Day;
- the first EBA research workshop, bringing together economists from national supervisory authorities and leading academics;
- nine public hearings, held as part the consultation processes on guidelines and technical standards; and
- a workshop on the implementation of supervisory reporting requirements.

Highlights and key figures in 2012

JANUARY

The EBA publishes its work programme for 2012

The EBA issues guidelines on AMA extensions and changes

FEBRUARY

The EBA publishes an overview of its objectives and work in the area of consumer protection and financial innovation

The EBA's Board of Supervisors makes its first aggregate assessment of banks' capital plans

The EBA publishes a consultation paper on draft implementing technical standards (ITS) on reporting of large exposures

MARCH

The EBA publishes a discussion paper on draft regulatory technical standards (RTS) on the capital requirements for central counterparties (CCPs)

The European supervisory authorities (ESAs) publish a joint discussion paper on draft RTS

APRIL

The EBA issues a report on the results of the Basel III monitoring exercise

The EBA launches a consultation on draft RTS on own funds (Part one)

The Joint Committee of the three ESAs publishes two reports on the implementation of the third money-laundering directive

The EBA launches a consultation on the draft guidelines on the assessment of the suitability of members of the management body and key function holders

MAY

The EBA publishes a report on the fulfilment of the EBA recommendation related to the 2011 EU-wide stress test

The Joint Committee of the three ESAs launches a consultation on the proposed response to the EC's call for advice on the fundamental review of the financial conglomerates directive

The EBA publishes a discussion paper on a template for recovery plans

The EBA publishes two sets of guidelines on stressed value-at-risk (stressed VaR) and on the incremental default and migration risk charge (IRC) modelling approaches employed by credit institutions using the internal model approach (IMA)

The EBA publishes a draft data point model (DPM) based on its draft ITS on supervisory reporting requirements for institutions

JUNE

The EBA launches three consultations on draft ITS on disclosure for own funds, supervisory reporting requirements for leverage ratio and for liquidity coverage and stable funding

The EBA launches two consultations on draft RTS on the concept of gain on sale and on capital requirements for CCPs

The EBA publishes its 2011 annual report

JULY

The EBA launches a consultation on draft RTS for credit valuation adjustment risk on the determination of a proxy spread and the specification of a limited number of smaller portfolios

The EBA publishes its annual report on risks and vulnerabilities of the European banking sector

The EBA publishes an overview report on the implementation of the capital exercise

The EBA launches a consultation on draft RTS on the specification of the calculation of credit risk adjustments

The ESAs publish a list of identified financial conglomerates

The EBA publishes two sets of guidelines on the data collection exercise regarding high earners and on the remuneration benchmarking exercise

AUGUST

The Joint Committee of the three ESAs publishes a Protocol for Supervisory Cooperation in the field of anti-money-laundering (AML)

The EBA organises a workshop on the technical implementation of the new supervisory reporting requirements

The Joint Committee of the ESAs launches a public consultation on RTS for the calculation methods for financial conglomerates

SEPTEMBER

The Board of Appeal of the ESAs appoints William Blair as its President and Juan Fernández-Armesto as its Vice-President

The EBA adopts the draft technical standards on capital requirements for CCPs

The EBA publishes the results of the Basel III monitoring exercise as of 31 December 2011

OCTOBER

The EBA publishes the final report on the recapitalisation of European banks

The EBA publishes its annual work programme for 2013

The EBA publishes a follow-up review on banks' transparency in their 2011 Pillar 3 reports

The EBA issues a report on the assessment of SME proposals for CRD IV/CRR

NOVEMBER

The EBA consults on technical standards on cooperatives, mutuals, savings institutions and similar institutions

The EBA publishes a discussion paper on draft RTSs on prudent valuation

The EBA organises a research workshop on 'Banks' business models after the crisis: incentives, strategies, de-risking'.

The EBA publishes its guidelines on the assessment of the suitability of members of the management body and key function holders

The EBA publishes an updated list of credit institutions authorised to operate within the EU and the EEA countries

The Joint Committee of the ESAs publishes a report on the implementation of anti-money-laundering and counterterrorist financing requirements for e-money in the EU

DECEMBER

The EBA adopts an opinion on the recommendations of the High-Level Expert Group on reforming the structure of the EU banking sector

The EBA issues an update on its current position regarding the supervisory requirements for liquidity and leverage ratio reporting

The EBA adopts an opinion on a possible framework for the recovery and resolution of non-bank financial institutions



2012 in numbers

Board of Supervisors meetings	9
Banking Stakeholders Group meetings	7
Working groups meetings	180
Consultation papers	14
Draft regulatory and implementing technical standards	23
Guidelines	6
Opinions	6
Public hearings	9

Regulation key figures

Topic	Regulatory products
Own funds	Consultation paper on 14 draft RTS on own funds
	Consultation paper on one draft RTS on cooperatives, mutuals, savings institutions and similar institutions
	Consultation paper on one draft ITS on disclosure for own funds
	Opinion on the methodology for the calculation of transitional floors
	Opinion on some amendments introduced in the CRR
Credit risk	Consultation paper on one draft RTS on the calculation of credit risk adjustments
	Consultation paper on one draft RTS on the capital requirements for central counterparties (CCPs)
	Opinion on capital requirements for CCPs
	Discussion paper on draft RTS on capital requirements for CCPs
Market risk	Guidelines on the incremental default and migration risk charge
	Guidelines on stressed value-at-risk
	Consultation paper on one RTS on the concept of gain on sale associated with future margin income in a securitisation context
	Discussion paper on draft regulatory standards on prudent valuation
Operational risk	Guidelines on AMA extensions and changes
Remuneration	Guidelines on the data collection exercise regarding high earners
	Guidelines on the remuneration benchmarking exercise
Supervisory reporting	Consultation paper on one draft ITS on reporting of large exposures
	Consultation on one draft ITS on supervisory reporting requirements for liquidity coverage and stable funding
	Consultation on one draft ITS on supervisory reporting requirements for leverage ratio
	Consultation on draft ITS on supervisory reporting requirements for FINREP and COREP
Recovery and resolution	Opinion on a possible framework for the recovery and resolution of financial institutions other than banks
	Discussion paper on a template for recovery plans
Structural reforms	Opinion on the recommendations of the High-Level Expert Group on reforming the structure of the EU banking sector
Shadow banking	Opinion on the European Commission consultation on shadow banking
Internal governance	Guidelines on the assessment of the suitability of members of the management body and key function holders

Discussion papers

Guidelines

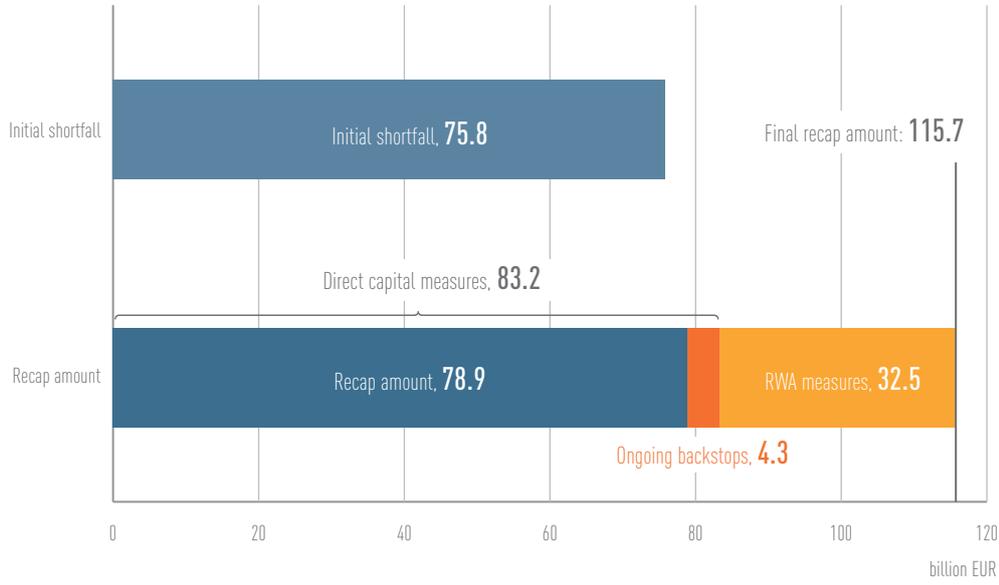
Opinions

Consultations on draft RTS and ITS

Oversight key figures

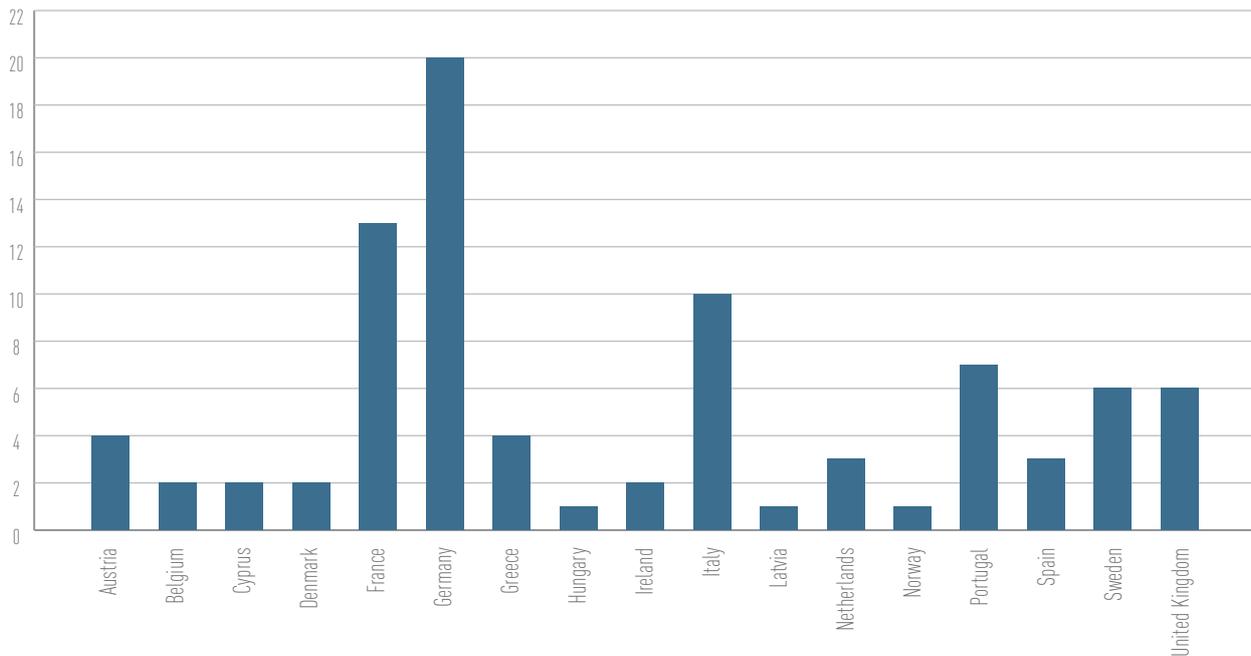
Recapitalisation exercise

Initial capital shortfall and final recapitalisation amount

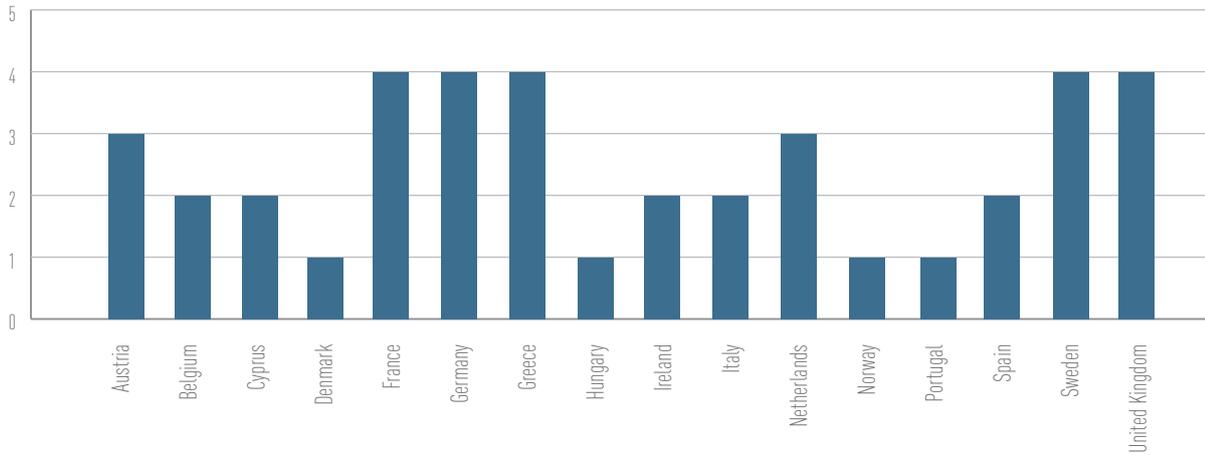


Colleges of supervisors

EEA supervisory colleges in place — distribution per home country



List of EBA 'closely monitored' supervisory colleges — distribution per home country

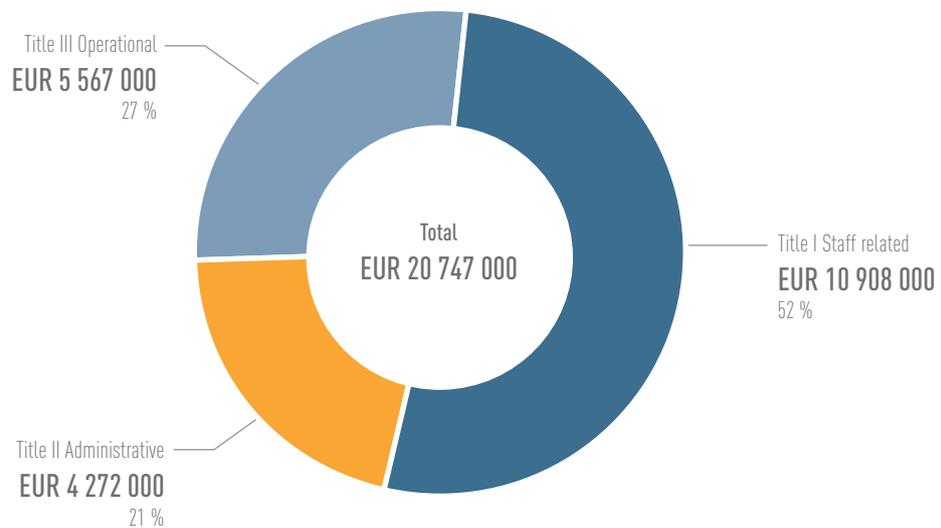


Finance key figures

Budget execution in 2012

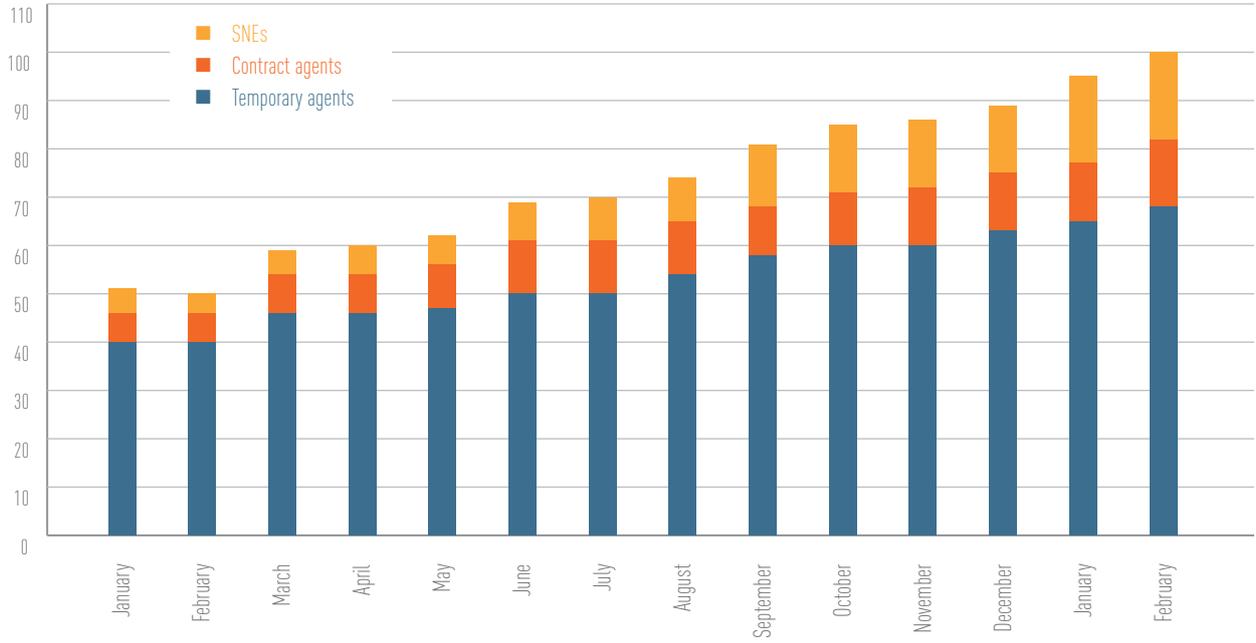
	Budget	Committed	Committed %	Paid	Paid %
Title I — Staff related	10 908 000	9 159 710	84 %	8 953 661	82 %
Title II — Administrative	4 272 000	3 673 434	86 %	2 029 498	48 %
Title III — Operational	5 567 000	5 547 199	100 %	849 375	15 %
Total (EUR)	20 747 000	18 380 343	89 %	11 832 534	57 %

Budget execution by title



Human resources key figures

Headcount growth



European Banking Authority
Summary of the EBA 2012 annual report

Luxembourg: Publications Office of the European Union

2013 — 16 pp. — 21 × 29.7 cm

ISSN 1977-8783
ISBN 978-92-95086-05-0
doi:10.2853/16402

EUROPEAN BANKING AUTHORITY

Tower 42
25 Old Broad Street
London EC2N 1HQ

Tel. **+44 2073821770**
Fax **+44 2073821771/2**
E-mail: **info@eba.europa.eu**

<http://www.eba.europa.eu>



Publications Office

ISBN 978-92-95086-05-0



9 789295 086050

doi:10.2853/16402