



EUROPEAN CENTRAL BANK

BANKING SUPERVISION

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Stresstesting in Europe – A Primer

25 February 2019 - Online Seminar

ECB/SSM performed two supervisory stress test exercises for significant institutions (SIs) in 2018



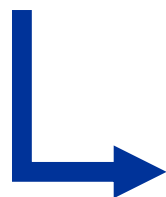
EU-wide EBA stress test

- **33** SSM SIs (“EBA banks”)
- **4** Greek banks underwent the same stress test under the EBA scenario and methodology
- **Public disclosure** of bank-specific results
- EU-wide exercise under **EBA coordination**, in cooperation with ESRB, ECB and NCAs



SSM SREP* stress test

- **54** other SSM SIs (“SREP banks”)
- Under **ECB/SSM coordination**
- **Public disclosure** of aggregate results
- **EBA methodology applies** with reduced complexity (i.e. proportionality)



Objectives

- Assess the **resilience of financial institutions** to adverse market developments.
- **Contribute to the overall Supervisory Review and Evaluation Process (SREP)** to ensure institutions’ capital and liquidity adequacy, as well as sound risk coverage and internal processes.
- Ensure a **consistent treatment** of all SSM SIs.



The results of both exercises will feed into the SSM SREP

* SREP: Supervisory Review and Evaluation Process

ECB responsibilities in stress tests (ST)



EBA

- **Initiation and coordination** of the EBA EU-wide stress test (not SSM SREP* stress test)
- Leading the development of the **methodology**
- **Publication** of final results for EBA EU-wide stress test



ECB / SSM

- **Coordination** of the **SREP stress test** exercise
- **Quality assurance process** for EBA and SREP stress test exercises
- **Interactions with banks**



Banks

- **Delivery** of historical and 2017 starting point data, as well as bottom-up **projections** until 2020
- Provision of **explanatory information**



The **Quality assurance of the ECB** has the objective to ensure a level playing field among banks and consistency, comparability, and credibility of their results by enforcing the application of the EBA methodology and challenging banks' results.

Stress test 2018 – A bottom-up exercise in three cycles with a fair and tough quality assurance

Bank-led stress test

February – May 2018

- **Advance data collection**
- **Pre-validation** of templates and submission of bank-led stress test results
- Banks are asked to provide an explanatory note accompanying their submissions

Quality assurance (QA) in three cycles

May – October 2018

- ECB identifies issues from four different QA perspectives, i.e. through methodology-adjusted, top-down, peer benchmark and bank-specific view
- QA follows an integrated process of **three submission cycles**
- Banks receive QA reports after every cycle and are asked to “comply or explain” or - for the last cycle and if a certain projection is not credible - to “comply”

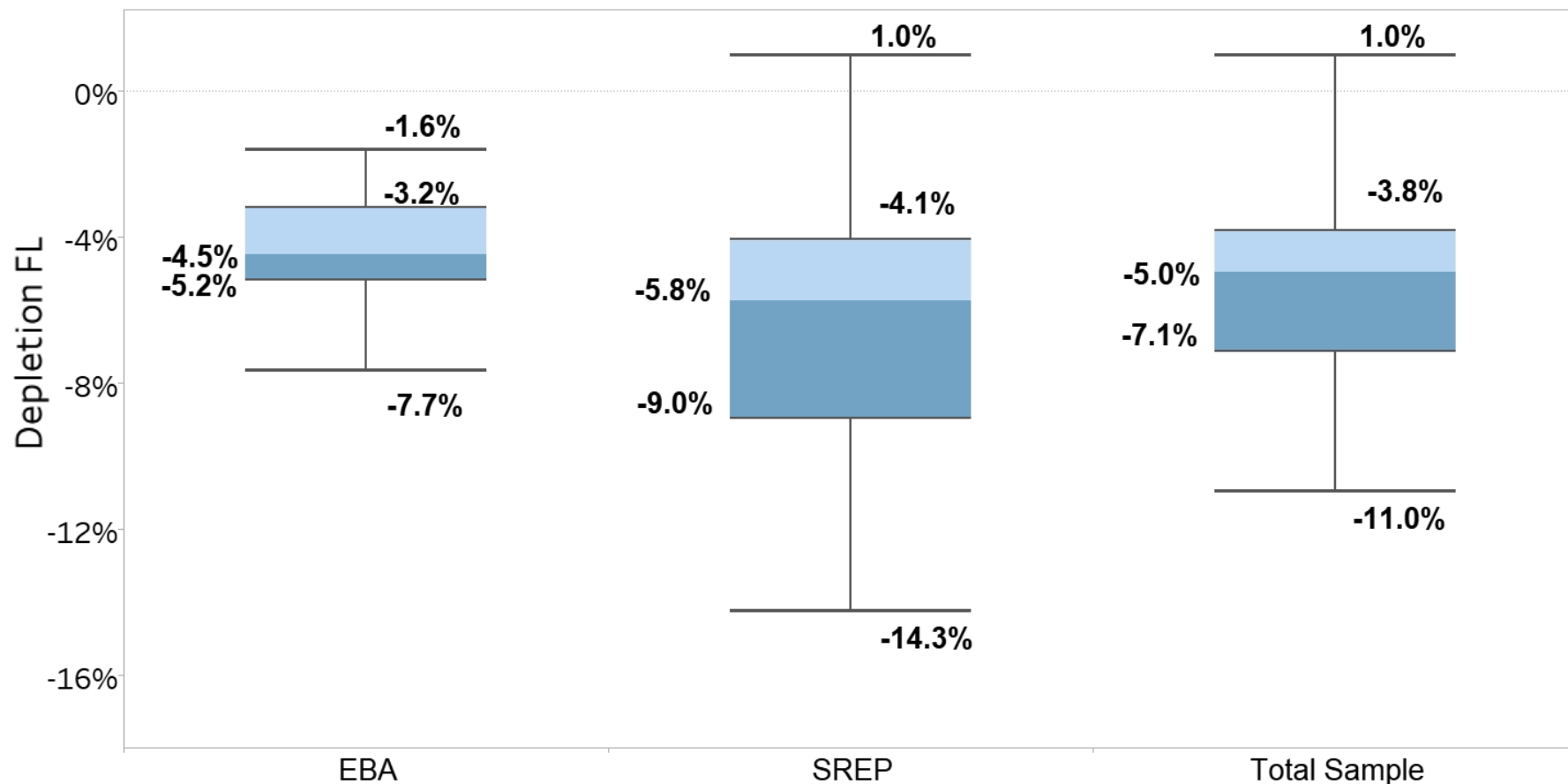
Finalisation of ST results

October – November 2018

- **Publication of results** for EBA banks on **2nd November**

CET1R (FL) depletion for SREP banks exhibits higher dispersion than EBA banks

CET1R 3yr depletion – Adverse scenario (Fully Loaded)¹

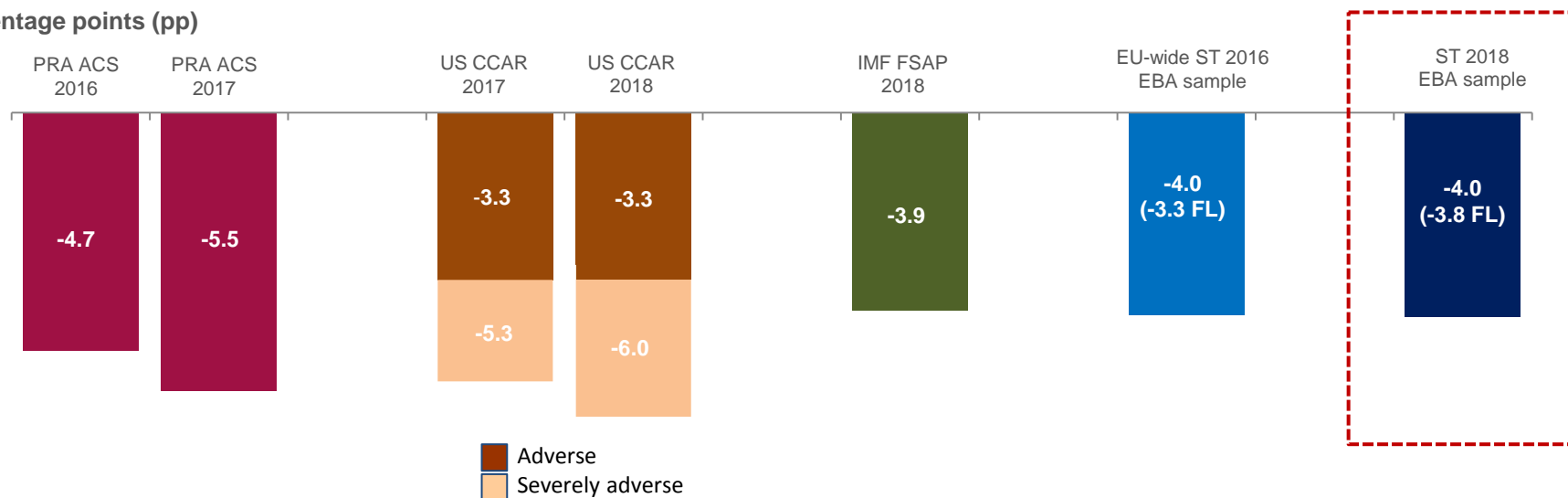


¹ The boundaries of the blue areas represent the 25th, 50th and 75th percentiles, respectively. The upper whisker corresponds to the smallest (i.e. least negative or positive) observed depletion between the 75th percentile and the 75th percentile plus 1.5 times the interquartile range. The lower whisker corresponds to the largest (i.e. most negative) observed depletion between the 25th percentile and the 25th percentile minus 1.5 times the interquartile range.

Comparison of 2018 stress test (EBA sample) with exercises conducted in the US, UK and by the IMF

CET1R (TR) depletion across different ST exercises

In percentage points (pp)



On a transitional basis, current CET1R depletion is similar to final 2016 results for banks in the EBA sample – on fully loaded basis results, depletion is higher than 2016.

Please note that ST time horizon, methodology and scenarios vary among different exercises and are difficult to compare.

- (1) For CCAR and PRA ACS, maximum (i.e. worst year) depletion is shown
- (2) Results for PRA exclude 'strategic management actions' in order to maximise comparability to EBA ST. This increased the maximal depletion by 0.3pp to 5.5 in 2017 and 0.5pp to 4.7 in 2016.
- (3) For CCAR, severely adverse scenario was used as benchmark. Original capital action plans are used for these numbers.
- (4) The IMF FSAP sample comprised the 28 largest euro area banks, accounting for about 65 percent of consolidated banking sector assets.
- (5) PRA, CCAR, IMF exercises shown on TR basis

TR / FL: Transitional and fully-loaded capital ratios as per paragraph 19 of the EBA stress test methodology.