THE CHAIRPERSON

Floor 46, One Canada Square,
London E14 5AA UNITED KINGDOM
t: +44(0) 20 7382 1776
f: +44(0) 20 7382 1771
info@eba.europa.eu
www.eba.europa.eu

EBA/2015/D/CP/0018

Martin Schulz
The President of the European Parliament
European Parliament
Rue Wiertz 60
B-1047 Brussels
Belgium

2 March 2015

Subject: Decision by the EBA Board of Supervisors regarding an EU-wide stress test in 2015

Dear Mr Schulz,

The EBA is required, in cooperation with the European Systemic Risk Board (ESRB), to initiate and coordinate Union-wide stress tests based on Article 32 of the EBA regulation (Regulation (EU) No 1093/2010 of the European Parliament and of the Council). The same regulation stipulates that the EBA shall, at least annually, consider whether it is appropriate to carry out Union-wide assessments of the resilience of financial institutions, in accordance with Article 32, and shall inform the European Parliament, the Council and the Commission of its reasoning.

The results of the 2014 EU-wide stress test were published at the end of October 2014 and demonstrated the ongoing progress EU banks are making in strengthening their capital position. The EBA's 2011 stress test and the subsequent recapitalisation exercise had already resulted in a significant and permanent injection of capital with corresponding significant raises in capital ratios. For example, from December 2011 to December 2013 the Core Tier 1 capital ratio, applying the common EBA definition used during the recapitalisation exercise, increased by over 200bps. As a consequence the starting point for the 2014 stress test exercise was strengthened relative to previous exercises. The aggregate weighted average Common Equity Tier 1 Capital ratio for the stress test sample in December 2013 was 11.5% and therefore well above regulatory minima and in line with international peers. Including the effect of the asset quality review, the Common Equity Tier 1 Capital ratio was still 11.1% which was the starting point for the stress test. In the adverse scenario of the stress test the projected aggregate Common Equity Tier 1 ratio fell by approximately 260bps. 24 participating banks fell below the defined thresholds leading to an aggregate maximum capital shortfall of EUR 24.6BN. The additional capital raised in 2014 by banks with a shortfall reduced the capital needs for those banks to EUR 9.5BN and the number of banks with a shortfall to 14.

The 2014 stress test was a very resource intensive exercise; it generated a vast amount of quantitative as well as qualitative information on the banks in scope, which still serves to inform ongoing supervisory assessments.

Moreover, first lessons learnt from 2014 show that the process was significantly improved compared to previous exercises. However, it also showed that such an intensive process requires significant planning and preparation. There is therefore a need to plan ahead and give some time to prepare for the next exercise, both for the authorities as well as for the banks involved. This will allow a smoother process as well as incorporating new elements, such as conduct risks, into the methodology.

Based on these reasons the Board of Supervisors of the EBA decided in its meeting on the 24th of February not to carry out an EU-wide stress test in 2015 but to start preparations for the next stress test in 2016.

Instead of a stress test, a transparency exercise will be run in 2015 similar to the one carried out by the EBA in 2013. Details of this exercise remain to be decided but it is envisaged that it will include the publication of detailed data on banks' balance sheets and portfolios but no projections.

Yours sincerely

Signed

Andrea Enria

CC: Roberto Gualtieri, Member of the European Parliament, Chair of the Committee on Economic and Monetary Affairs;
Jonathan Hill, Commissioner, Financial Stability, Financial Services and Capital Markets Union; and
Mag. Thomas Wieser, EFC Chairman, President of the Eurogroup Working Group (EWG) and the Economic and Financial Committee (EFC)