



# EBA RISK REDUCTION PACKAGE ROADMAPS

EBA TASKS ARISING FROM CRD 5 – CRR 2 – BRRD 2

**EBA**

EUROPEAN  
BANKING  
AUTHORITY

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# Introduction

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## Background and summary of plans

1. The formal legislative texts related to the Risk Reduction Measures package have been adopted by the Council of the EU and the European Parliament on 20 May 2019 and published in the Official Journal (OJ) on 7 June 2019<sup>1</sup>. The Package amends rules on capital requirements under the Capital Requirements Directive 5 (CRD 5) and the Capital Requirements Regulation 2 (CRR 2) as well as resolution under the revised Bank Recovery and Resolution Directive (BRRD 2) and the Single Resolution Mechanism Regulation. The Package includes numerous new mandates for the EBA, being regulatory or implementing technical standards (RTS/ITS), guidelines (GLs) or reports. In addition, the new investment firms regime, as established under the IFD-IFR texts, is intended to be published in the OJ by November 2019.
2. As follow-up to the EBA's Roadmap on Market Risk<sup>2</sup> this set of roadmaps outlines the EBA approach and timelines to deliver on the mandates given to the EBA especially in the areas of Pillar 2, governance and remuneration, Large Exposures, resolution as well as reporting and disclosure. Moreover and in view of the co-legislators' close attention paid to money laundering and sustainable finance, the EBA will present two more detailed Action Plans on these areas, which will outline the policy stance and sequencing of mandates in the respective areas.

## Clarity on EBA regulatory mandates and main areas of work

### General sequencing

3. The Risk Reduction Package gives rise to around 100 new mandates for the EBA under CRD 5-CRR 2 and BRRD 2. Most of the mandates are of regulatory essence to complete and update the Single Rule Book. In addition to that, co-legislators acknowledged the important role of the EBA in monitoring practices. Hence, around 30 reports or sets of monitoring actions are due to support the effective and consistent implementation of the Single Rule Book as well as its supervisory convergence in practice.
4. The EBA is above all paying attention to the delivery dates as set by the co-legislators in the prioritisation of its work. Such deadlines drive the sequencing of the work calendar in first instance. There are however contingencies that may limit the ability of the EBA to deliver all mandates on time.

### Transparency on Delays

5. Out of all mandates attributed to the EBA, a small number of mandates prescribe a deadline of 6-9 months after entry into force of CRD 5 and CRR 2. Timely delivery will remain very

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<sup>1</sup> OJ L 62, 7.6.2019: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2019:150:FULL&from=END>.

<sup>2</sup> EBA Roadmap for the new Market and Counterparty Credit Risk approaches . 27 June 2019: <https://eba.europa.eu/file/104484/download?token=ZTdEDC-o>.

challenging for most of them as stakeholders need to be consulted properly in order to collect evidence, consult and prepare robust adhesion to the future standards across the EU. In contrast to the area of market risk where consultation papers could be issued before the Official Journal (OJ) publication of CRR 2, almost all mandates with 6-9 months deadlines risk to be delayed by 3 up to approximately 9 months from the deadline set in the legislative texts.<sup>3</sup>

6. For mandates with deadlines within 1-year or more, the EBA will strive to deliver on time for its submission to the European Commission. Some limited delays are however anticipated in the areas of Large Exposures, IRRBB and MREL or Bail-in execution due to their complexity and/or contingency to substantive progress in other areas such as Pillar 2 and internal MREL. Likewise, some mandates on reporting may also be delayed as any calibration of requirements is contingent on an agreement on the policy side. The delay can also be influenced by the sequencing of the work in the event that the content needs to be aligned to other EBA work that is still in progress, such as for guidelines on cooperation between authorities. The detailed Roadmaps support the explanatory communication on the actual sequencing and possible delays.

## The Risk Reduction Measures Package and its detailed Roadmaps

7. The detailed Roadmaps provide clarity on the early understanding of the mandates and changes in legislation, the timeline for consultation and submission. All roadmaps outline transparently expected plans and sometimes delays on specific EBA mandates as it could occur. The detailed Roadmaps cover the areas of Governance and Remuneration, Large Exposures, Pillar2, Reporting and Disclosure as well as Resolution. All detailed roadmaps outline as well how proportionality as key consideration in the overhaul of CRR 2-CRD 5 in the mandates will be addressed.
8. In the area of governance, the EBA will help optimising the existing framework with a particular primary emphasis on the finalisation of the remuneration deliverables. Especially for the work on identified staff, the prior EBA peer review will inform the way forward. Through the advancement on these mandates it will be key to closely cooperate with ESMA and to be conscious on the alignment between the CRD 5 and IFD.
9. For Large Exposures, the Roadmap outlines the EBA's planned work in three staggered phases where priority would be to complete the framework where currently no EBA work exists such as the determination of exposures arising from derivatives. Only in a second stage and in view of existing EBA Guidelines, the EBA would address the identification of connected clients and shadow banking entities as more research guiding the analysis will be needed.
10. The roadmap on the EBA's Pillar 2 work outlines the two phases to work on the changes in the framework coming from CRD 5 and links them back to the initial EBA Roadmap of April 2017. The EBA will look into making the Pillar 2 framework fit for purpose in view of ongoing and new challenges. Proportionality will be strengthened, and the AML/CTF dimension will be clarified together with Pillar 2 capital add-ons. Both phases offer the opportunity to enhance the

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<sup>3</sup> Cf. Annex 1 for a comprehensive list of EBA mandates from CRD 5/CRR 2, BRRD 2, IFR-IFD with deadlines 6-9 months.

common supervisory risk taxonomy. The work on IRRBB will be sequenced in view of the recent application of the EBA's guidelines, and the consideration to sustainable finance will be included after the issuance of the related report.

11. The need for an efficient reporting framework with enhanced proportionality underlies the considerations in the detailed reporting roadmap. In view of the short deadlines foreseen, the roadmap provides an overview on immediate but also medium-term work. Proportionality will be a key element throughout the work on all mandates and deliverables.
12. When it comes to disclosure, the mandates on Pillar 3 disclosures and the mapping of all the quantitative templates with supervisory reporting data point by data point will inform the potential role of the EBA to become the EU-wide Pillar 3 hub following the completion of EUCLID project.
13. The Resolution Roadmap outlines the EBA's work in facilitating effective resolution planning and preparedness and smooth execution of resolution action. The mandates aim to complete the framework concerning eligible liability instruments and the setting of MREL, ensure an harmonised framework for reporting and disclosure of MREL and foresee an appropriate role of the EBA in monitoring MREL implementation and consistency across Europe.
14. In addition to the detailed roadmaps, the Risk Reduction Measures Package is due to secure a sound level playing field in the Single Market and it confers on the EBA a number of new mandates in relation to market access, authorisations and third country branches<sup>4</sup>. To that end, the EBA will put forward guidelines, which will help harmonising the authorisation process and practices. The link between prudential and AML/CFT supervision will be further strengthened by updating existing RTS/ITS.
15. Finally, the EBA will assess the level playing field within the EU concerning third country branches. The reports mandated to the EBA will look in depth into the major differences, which exist at the entry point of the authorisation process that subsequently informs the conditions for operations. The EBA will further analyse attentively the lack of transparency as regards the imposition of requirements on incoming branches and variations in the nature of the requirements imposed by host jurisdictions.

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<sup>4</sup>Directive (EU) 2019/878 of 20 May 2019 amending Directive 2013/36/EU: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.L.2019.150.01.0253.01.ENG&toc=OJ%3AL%3A2019%3A150%3ATOC>

# Infographics





# 1 Roadmap for the delivery of the EBA mandates on governance and remuneration

## OBJECTIVE

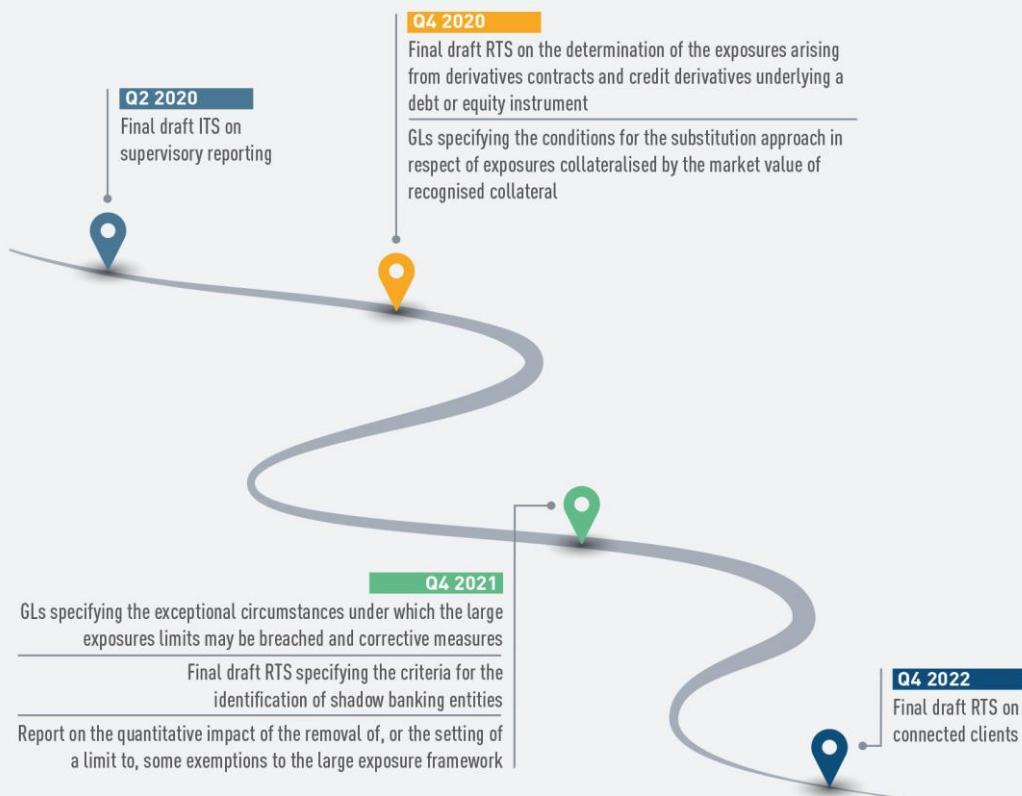
Achieving a more balanced and robust governance for the whole banking structure



## 2 Roadmap for the delivery of the EBA mandates on large exposures

### OBJECTIVE

Taking decisive steps to manage concentration risk, including shadow banking



# 3

## Roadmap for the delivery of the EBA mandates on Pillar 2

OBJECTIVE

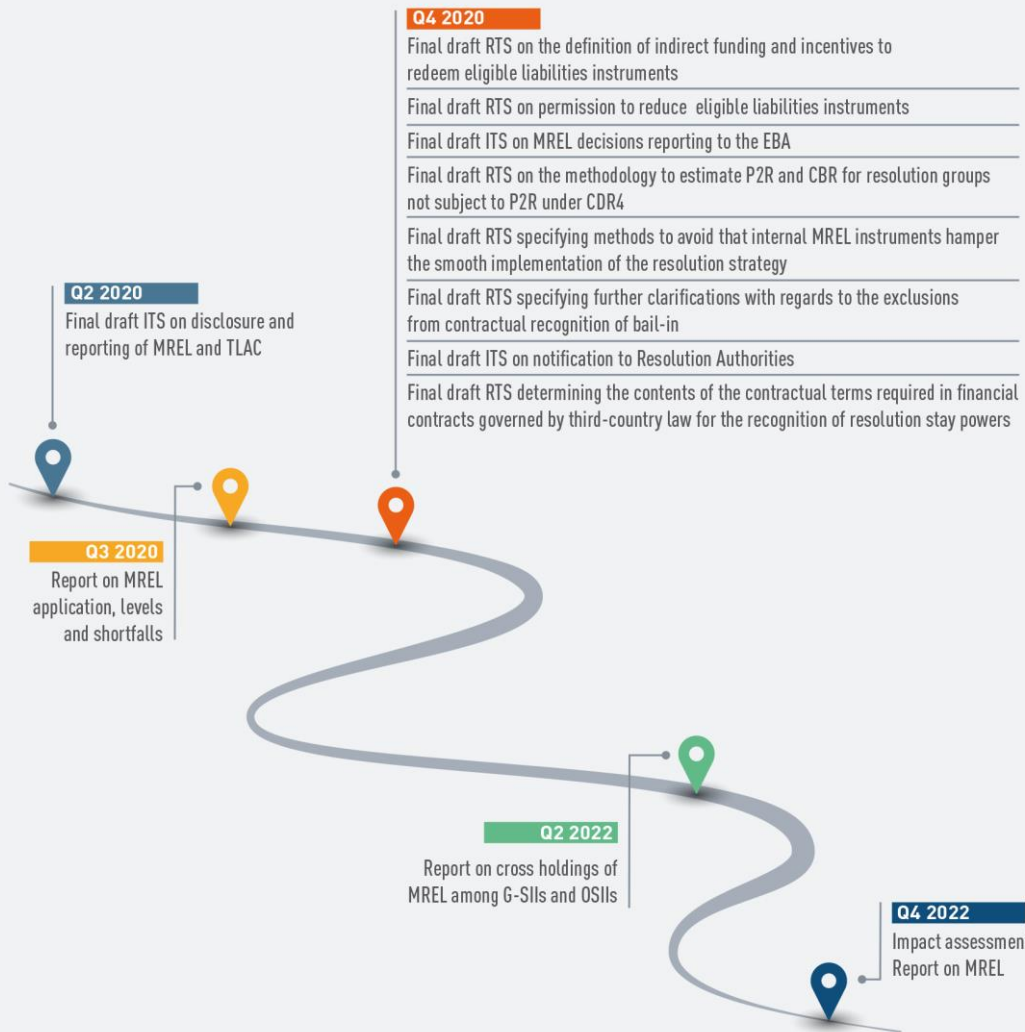
Providing more clarity on Pillar 2 requirements



# 4 Roadmap for the delivery of the EBA mandates on resolution

## OBJECTIVE

Seeing resolution in action



# 5

## Roadmap for the delivery of the EBA mandates on disclosures

### OBJECTIVE

Achieving a comprehensive Pillar 3 framework



## 6 Roadmap for the delivery of the EBA mandates on supervisory reporting

### OBJECTIVE

Achieving a more efficient and proportionate supervisory reporting



# 1. Roadmap for the delivery of the EBA mandates on governance and remuneration

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## 1.1 Introduction and background

16. Directive 2019/878/EU (CRD 5), adopted on 20 May 2019, amends Directive 2013/36/EU (CRD, the Capital Requirements Directive) as regards, among other things, governance and remuneration. In particular, several CRD remuneration provisions were amended to take into account the European Commission report of 28 July 2016 on the assessment of the remuneration requirements<sup>5</sup>.

### Remuneration requirements under CRD 5

17. The main changes introduced by CRD 5 and the revised Capital Requirements Regulation (CRR 2) regarding remuneration requirements are related to:
- the scope of application, as the CRD now addresses credit institutions and significant investment firms (category 2 and category 3 investment firms are not subject to the CRD) as well as holding companies<sup>6</sup>;
  - the categorisation of staff considered to have a material impact on an institution's risk profile has been clarified, and some of the qualitative criteria are now specified directly in the legislative text;
  - the possibility for listed institutions to award share-linked instruments;
  - the minimum deferral period, which has increased from 3 to 4 years and, for members of the management body and senior management in 'significant' institutions, to 5 years;

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<sup>5</sup> In addition to CRD 5, the European Commission has proposed a specific new prudential framework for investment firms (Investment Firms Directive, IFD) that are not systemic by virtue of their size or interconnectedness with other financial and economic actors. The new investment firms' regime has been adopted by the co-legislators and is due to be published in the Official Journal of the European Union soon. Systemic investment firms should remain subject to the existing prudential framework under CRD/CRR. For the other categories of investment firms, in particular Class 2 firms, it is a requirement that they should have sound governance arrangements and comply with remuneration requirements set out in the IFD. Most of the requirements envisaged under CRD have been replicated in the IFD taking into account the size, nature and complexity of investment firms' activities. The IFD mandates assigned to the EBA in the areas of governance and remunerations broadly mirror the CRD mandates on the same areas. The EBA will work on the CRD and IFD mandates in parallel in order to ensure cross-sectoral consistency. The work of the EBA mandates stemming from the new investment firms regime texts will be soon available in a dedicated roadmap.

<sup>6</sup> CRR 2 provides definitions for the terms 'group', 'small and non-complex institution' and 'large institution' that need to be reflected in the EBA regulatory products.

- the introduction of a waiver to better account for the proportionality principle; in particular it is now allowed to derogate from the requirements to pay out variable remuneration in instruments and to have retention and deferral arrangements:
  - o where the institution is not a 'large institution' and the institution's average asset value on an individual basis is equal to or less than EUR 5 billion over the 4 years preceding the current financial year (although a Member State may lower this threshold or increase it up to EUR 15 billion); and/or
  - o where the relevant staff member's variable remuneration does not exceed EUR 50 000 and does not represent more than one third of their total annual remuneration, although a Member State may decide this exemption will not apply; the EBA has a mandate to issue guidelines to further specify those derogations.
- the group application envisaged under Article 109 of the CRD, which has been adjusted; the remuneration requirements will not apply on a consolidated basis to undertakings within the scope of consolidation when they are subject to other specific EU remuneration requirements (i.e. undertakings for the collective investment in transferable securities, UCITS, and alternative investment funds are excluded);
- gender neutrality of remuneration, which will be further specified through EBA guidelines; this mandate is then followed by a review, benchmarking and reporting requirement for the EBA;
- the disclosure requirements, which have been clarified and adjusted (e.g. with respect to gender-neutral pay).

### Governance requirements under CRD 5

18. The main changes relevant for governance requirements are related to risk management and the management body's involvement in the risk management oversight. In addition:
- the scope of application, since CRD is addressed now to credit institutions and significant investment firms (category 2 and category 3 investment firms are not subject to the CRD);
  - the clear reference in Article 91 to the primary responsibility of financial holding companies and mixed financial holding companies, alongside institutions, for ensuring that members of the management board are fit and proper;
  - the development of the regime on loans to members of the management body and their related parties;
  - the clarification that money laundering and financing of terrorism risk is part of the supervisory review and evaluation process and therefore of the sound governance arrangements and that this can be taken into account in the fit and proper assessment;



- the consistent application of the power of competent authorities to remove members of the management body, in line with Article 91 as amended.
- the clarification that being a member of affiliated companies or affiliated entities does not in itself constitute an obstacle to acting with independence of mind;
- the definition of group (including the application of the arrangements, processes and mechanism to offshore financial centres) and the inclusion of holding companies (which will need to be reflected throughout existing guidelines, e.g. guidelines on the counting of directorships).

## 1.2 The EBA's policy strategy on governance and remuneration

19. The key objectives of the EBA's strategy in terms of policy in the areas of governance and remuneration are outlined below:

- a. Optimise the existing framework under the CRD, with amendments to existing EBA regulatory products limited to changes introduced by CRD 5 and clarify them where necessary and relevant to avoid legal uncertainty for both competent authorities and institutions (e.g. by including existing answers from the Q&A tool). This approach is deemed to alleviate the burden for institutions and limit their implementation costs. Consideration should also be given to potential future changes and general expectations around governance and conduct in areas such as anti-money laundering and combating the financing of terrorism (AML/CFT) and sustainable finance and environmental, social and governance factors<sup>7</sup>.
- b. Ensure, where possible, cross-sectoral consistency between the governance and remuneration framework under CRD and IFD, also taking into account the requirements set out within the Alternative Investment Fund Managers Directive and UCITS Directive as mandated within the IFD and related ESMA Guidelines.
- c. Ensure a harmonised and consistent approach within the EU regarding the application of the proportionality for both remuneration and governance under the CRD, by providing guidelines in these areas.

20. In line with the above, the EBA has several mandates to draft regulatory technical standards (RTS) and guidelines in the areas of governance and remuneration with specific deadlines to be met.

## 1.3 Expected timeline for deliverables

21. The table below outlines all the EBA remuneration and governance mandates together with the deadlines envisaged under CRD 5 and the planned timelines.

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<sup>7</sup> The EBA will publish a dedicated roadmap on this topic soon.

22. In its approach to prioritisation, the EBA has started from the timelines set out for each mandate by the co-legislators. However, those timelines are often very ambitious and they may not allow the EBA sufficient time for effective and practical delivery of all products for a variety of reasons, including the need to agree on robust grounds across the EBA membership, relying on adequate information and a common understanding of what are good policies to implement, as well as the need to properly consult an adequate range of stakeholders. Considering the time constraints, in order to ensure that proper internal governance and public consultation processes are followed, it is the EBA's assessment that in general it will not be possible to deliver in less than 9-12 months.
23. In particular, the EBA will not be able to deliver the RTS on remuneration within the deadline provided by the legislation. The existing RTS on identified staff is being reviewed first with a view to amending it in line with the limited changes introduced by the legislation. The review of the RTS on identified staff will also be informed by the peer review report on the RTS on identified staff, which is being concluded. The draft RTS should be published for consultation by the end of 2019. The submission of the final draft RTS to the European Commission is planned for June 2020.
24. The work on the CRD guidelines on sound remuneration policies started in September 2019. Clarifications for the application of the proportionality principle will be provided to support a consistent EU approach.
25. The existing guidelines on fit and proper and internal governance will also be amended, having regard to the changes made to the remuneration and governance requirements, namely the scope of addressees, the regime on loans to members of the management body and their related parties, the independence criteria and the link with AML/CFT and the power to remove members of the management body. Existing category 1 and category 2 Q&A will be taken into account when amending the guidelines.
26. The work on the guidelines on data collection of high earners and on benchmarking of remuneration practices is more likely to start around the end of 2020.

*Table 1: Timetable of mandates related to remuneration and governance*

Mandate	Original deadline	Proposed deadline
<b>Mandates related to remuneration</b>		
Art. 94(2) of the CRD: RTS on identified staff	28 December 2019	June 2020
Art. 74(3) of the CRD: Guidelines on sound remuneration policies and proportionally gender-neutral pay	No deadline	First quarter 2021

Art. 75(3) of the CRD: Guidelines on data collection of high earners	No deadline	Last quarter 2021
Art. 75(2) of the CRD: Guidelines on benchmarking of remuneration practices	No deadline	Last quarter 2021
<b>Mandates related to governance</b>		
Art. 74(3) of the CRD: Guidelines on internal governance	No deadline	First quarter 2021
Art. 91(12) of the CRD: Guidelines on the assessment of the suitability of the members of the Management body and key function holders	No deadline	First quarter 2021

## 2. Roadmap for the delivery of the EBA mandates on large exposures

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### 2.1 Introduction and background

27. The Regulation amending the Capital Requirements Regulation (CRR) entered into force on 27 June and will apply from 28 June 2021 onwards with the exception of some provisions (not pertaining to large exposures), as set out in Article 3(2) of the amending regulation.<sup>8</sup>
28. This roadmap provides a general overview of the main changes included in the large exposures regime (Part 4 of the amended CRR) as well as an overview of the deliverables on which the EBA plans to work in the coming months and years. It also aims to prioritise these deliverables and to provide a timeline for their completion.
29. In October 2016, the EBA issued an opinion in response to a Commission call for advice, setting out its views on the review of the large exposure regime.<sup>9</sup> In that opinion, the EBA called on the EU institutions to introduce some amendments to (a) align the CRR with the Basel standard on large exposures, (b) remove some exemptions and (c) improve some technical details.
30. The amended CRR has retained some of the elements of the EBA's opinion. These amendments ensure greater alignment with the Basel standard (LEX).<sup>10</sup> For instance, the capital basis on which large exposures and large exposure limits are calculated will be restricted to Tier 1 capital; and a tighter limit on exposures between global systemically important institutions (G-SIIs) (15% of Tier 1 capital) was introduced.
31. With regard to the treatment of institutions' exposures to 'shadow banking entities', the EBA offered to submit a report to the Commission, after an observation period on the effectiveness of the existing guidelines, including proposals, if appropriate, on which aspects could be transformed into a regulation to achieve a higher degree of harmonisation. In addition, the EBA's opinion suggested a new mandate to develop and harmonise the treatment of breaches of the large exposures regime; recommended including in the CRR the requirement to report in COREP exposures with a value  $\geq$  EUR 300 million (currently reported in FINREP); and gave a new

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<sup>8</sup> Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012. OJ L 150, 7.6.2019, p. 1-225 (<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32019R0876>).

<sup>9</sup> The EBA's response to the European Commission's call for advice, EBA-OP-2016-17 of 24 October 2016 (<https://eba.europa.eu/documents/10180/1632518/EBA-report-on-the-review-of-the-large-exposures-regime+%28EBA-Op-2016-17%29.pdf>).

<sup>10</sup> BCBS, Supervisory framework for measuring and controlling large exposures (<https://www.bis.org/publ/bcbs283.pdf>).

mandate to develop technical standards in the area of connected clients (currently in guidelines). These elements were included in the amended CRR.

32. The EBA also provided its views on five discretionary exemptions included in the Commission's call for advice, namely those currently in points (d), (e), (f), (j) and (k) of Article 400(2) and 493(3) of the CRR.
33. The following changes (date of application: 28 June 2021) and EBA mandates were included in the amended CRR:
  - a. definition of connected clients (Art. 4(1)(39) and Art. 4(4) of the CRR) — Regulatory Technical Standards (RTS) mandate (by 28 June 2020);
  - b. calculation of exposures in the trading book and offsetting of positions (Art. 390(9) of the CRR) — RTS mandate (by 28 March 2020);
  - c. definition of capital basis (Art. 392 of the CRR) — Tier 1 instead of eligible capital;
  - d. reporting of exposures of a value  $\geq$  EUR 300 million but less than 10% of the institutions' Tier 1 capital (Art. 394(1) of the CRR) — already part of Commission implementing Regulation (EU) No 680/2014 on supervisory reporting;
  - e. definition of shadow banking entities (Art. 394(4) of the CRR) — RTS mandate (by 28 June 2020);
  - f. removal of reporting of maturity buckets (Art. 394(2) of the CRR) — change of reporting Regulation 680/2014 necessary;
  - g. limits to exposures between G-SIIs (Art. 395(1) of the CRR) — the limit must be observed within one year of identification as G-SII;
  - h. guidance on restoring compliance with large exposure limits (Art. 396(3) of the CRR) — guidelines mandate (no deadline);
  - i. changes to the use of credit risk mitigation (CRM) techniques (Art. 399 of the CRR);
  - j. modifications to the exemptions regime (Art. 400 of the CRR)
  - k. possibility for national law to prevent institutions from reducing the value of an exposure that is fully secured by residential or commercial property (Art. 402(1) and (2) of the CRR);
  - l. mandatory substitution approach (Art. 403 of the CRR);
  - m. guidance on application of tri-party treatment (Art. 403(4) of the CRR) — guidelines mandate (by 31 December 2019);
  - n. update of reporting Implementing Technical Standards (ITS) to reflect CRR 2 changes (Art. 430(7) of the CRR);
  - o. EBA monitoring of use of exemptions (Art. 507(1) of the CRR) — report mandate (by 28 June 2021);
  - p. Commission report on application of derogations regarding SFTs (Art. 507(2) of the CRR, by 31 December 2023).

## 2.2 The EBA's policy strategy on large exposures deliverables

34. The section below details the content of the new EBA mandates and provides preliminary considerations for the EBA's intentions on the way forward on these mandates. In general, the EBA expects to consider a period of not less than 12 months necessary to complete an assigned mandate in order to provide high-quality work, noting the need to conduct full consultations with stakeholders.

#### Regulatory technical standards on the determination of the exposures arising from derivatives contracts and credit derivatives underlying a debt or equity instrument

35. Article 390(9) of the CRR mandates the EBA to submit to the Commission by 28 March 2020 draft RTS to specify, for the purpose of paragraph 5, how to determine the exposures arising from derivative contracts listed in Annex II and credit derivative contracts, in which the contract was not directly entered into with a client but the underlying debt or equity instrument was issued by that client for inclusion in the exposures to the client.
36. The work related to this mandate has started.

#### Guidelines specifying the conditions for the substitution approach in respect of exposures collateralised by the market value of recognised collateral ('tri-party transactions')

37. Article 403(4) of the CRR requires the EBA to issue, by 31 December 2019, guidelines specifying the conditions for the application of the treatment referred to in paragraph 3, including the conditions and frequency for determining, monitoring and revising the limits referred to in point (b) of that paragraph. Paragraph 3 provides for the possibility that institutions replace the total amount of the institution's exposure to a collateral issuer due to tri-party repurchase agreements facilitated by a tri-party agent with the full amount of the limits that the institution has instructed the tri-party agent to apply to the securities issued by the collateral issuer.
38. The work related to this mandate has started.

#### Implementing technical standards on supervisory reporting

39. Article 430(7) of the CRR mandates the EBA to develop draft ITS to specify 'the uniform reporting formats and templates, the instructions and methodology on how to use those templates, the frequency and dates of reporting, the definitions and the IT solutions for the reporting referred to in paragraphs 1 to 4. Any new reporting requirements set out in such implementing technical standards shall not be applicable earlier than six months from the date of their entry into force.'
40. The draft ITS must be submitted to the Commission by June 2020. The reporting obligations in terms of large exposures are set out in Article 394 of the CRR.
41. Commission Implementing Regulation (EU) No 680/2014 laying down ITS with regard to supervisory reporting of institutions is the current legal instrument providing for supervisory reporting. Annexes VIII and IX deal in particular with large exposures. It will be necessary to assess the changes introduced in the amended CRR and reflect them in the draft ITS.

42. The work under the draft ITS has already started and consultations should take place before the end of 2019.

#### Guidelines specifying the exceptional circumstances under which the large exposure limits may be breached and corrective measures

43. Under the mandate of Article 396(3) of the CRR, the EBA is to issue guidelines specifying how competent authorities should deal with breaches of limits, in particular how they may determine (a) the exceptional cases under which exposures may exceed the large exposure limits, (b) the time considered appropriate for returning to compliance with the limits, and (c) the measures to be taken to ensure the institution's timely return to compliance.
44. The CRR does not contain a specific timeline to deliver this mandate. As these guidelines can become an important tool for supervisors and there is a need to harmonise this area in line with the EBA's opinion, it is suggested that they be published by December 2021.

#### Regulatory technical standards on connected clients

45. Article 4(4) of the CRR requires the EBA to submit to the Commission, by June 2020, draft RTS specifying in which circumstances the conditions set out in point (39) are met. Point (39), containing the definition of a group of connected clients, was only slightly modified (to include a clarification regarding exposures to CCPs).
46. It must be recalled that the EBA adopted own-initiative guidelines on connected clients under Article 4(1)(39) of the CRR.<sup>11</sup> These guidelines have applied since 1 January 2019 to competent authorities and financial institutions. They elaborate on the concepts of control and economic dependency, which are the backbone of the definition of a group of connected clients. Both concepts remain unaltered in the amended CRR.
47. Given the recent application date of those guidelines, for which institutions and competent authorities have to put in place relevant systems and processes to give effect to them, it would be beneficial to gain sufficient experience of their application and discuss with stakeholders possible amendments before their integration into the draft RTS. For those reasons, their submission could be delayed by 2.5 years, i.e. until December 2022.

#### Regulatory technical standards specifying the criteria for the identification of shadow banking entities

48. Under Article 394(4) of the CRR, the EBA is mandated to submit to the Commission by 28 June 2020 draft RTS to specify the criteria for the identification of shadow banking entities. Paragraph 2 concerns the reporting by institutions to competent authorities of their 10 largest exposures to institutions on a consolidated basis *as well as their 10 largest exposures to shadow*

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<sup>11</sup> Final report on Guidelines on connected clients under Article 4(1)(39) of Regulation (EU) No 575/2013 of 14 November 2017, EBA/GL/2017/15 (<https://eba.europa.eu/documents/10180/2025808/Final+Guidelines+on+connected+clients+%28EBA-GL-2017-15%29.pdf/a77be1e9-7564-47d2-a9d1-b7da98220352>).

*banking entities that carry out banking activities outside the regulatory framework on a consolidated basis, including large exposures exempt from the application of Article 395(1).*

49. Pursuant to the mandate under the current Article 395(2) of the CRR, the EBA published in 2015 guidelines on limits on exposures to shadow banking entities that carry out banking activities outside the regulatory framework under Article 395(2) of Regulation (EU) No 575/2013.<sup>12</sup> The guidelines have applied since 1 January 2017.
50. It will take some time to research and assess developments at international level in the area of shadow banking as well as to coordinate with other bodies that are working on the matter with a view to ensuring that the draft RTS reflect on all these developments. In the meantime, the current guidelines remain applicable and provide a definition of shadow banking entities under which institutions will continue to meet their obligations to report exposures. It is also the EBA's view that an observation period on the effectiveness of the existing guidelines could be beneficial before developing draft RTS. The EBA will also need to consider if a data collection, similar to that conducted in 2015, needs to be carried out again.<sup>13</sup>
51. Therefore, it is suggested that the submission of the draft RTS be postponed by 18 months, i.e. until December 2021.

#### Report on the quantitative impact of the removal of, or the setting of a limit to, some exemptions to the large exposures framework

52. Under Article 507(1) of the CRR, the EBA is mandated to monitor the use of the exemptions set out in:
  - Article 390(6)(b) on the settlement of the purchase or sale of securities;
  - Article 400(1)(f) to (m) including, inter alia, exposures to counterparties with a 0% risk weighting, secured asset items and other exposures, clearing members' trade exposures and default fund contributions to qualified central counterparties, etc.; and
  - Article 400(2)(a), (c) to (g), (i), (j) and (k), which include covered bonds, intra-group transactions, claims on central banks in the form of required minimum reserves held at those central banks and denominated in their national currencies, exposures in the form of a collateral or a guarantee for residential loans, provided by an eligible protection provider, etc.
53. By June 2021, the EBA is to submit a report to the Commission assessing the quantitative impact that the removal of those exemptions or the setting of a limit on their use would have. For each exemption, the report should assess:
  - a) the number of large exposures exempted in each Member State;

<sup>12</sup> Guidelines on limits on exposures to shadow banking entities which carry out banking activities outside a regulated framework under Article 395(2) of Regulation (EU) No 575/2013 of 14 December 2013, EBA/GL/2015/20 ([https://eba.europa.eu/sites/default/documents/files/documents/10180/1310259/ca01acf7-46c9-49d1-9f1a-92f3531df1cf/EBA-GL-2015-20%20GL%20on%20Shadow%20Banking%20Entities\\_EN.pdf](https://eba.europa.eu/sites/default/documents/files/documents/10180/1310259/ca01acf7-46c9-49d1-9f1a-92f3531df1cf/EBA-GL-2015-20%20GL%20on%20Shadow%20Banking%20Entities_EN.pdf)).

<sup>13</sup> See Report on institutions' exposures to 'shadow banking entities', 2015 data collection (<https://eba.europa.eu/documents/10180/950548/Report+on+institutions+exposures+to+shadow+banking+entities.pdf>).



- b) the number of institutions that make use of the exemption in each Member State; and  
 c) the aggregate amount of exposures exempted in each Member State.
54. There will be a need to perform an exhaustive review of the use of the exemptions in order to determine the impact of their possible removal. This report could be submitted to the Commission 6 months later than the set deadline, i.e. by December 2021. This additional time would be needed to run a data collection as well as to involve competent authorities and institutions in such a process.

## 2.3 Expected timeline for deliverables

55. Based on the above, the tentative timeline for EBA deliverables is detailed in the following table. As explained before, the EBA normally considers a period of not less than 12 months to complete an assigned mandate.
56. In view of the deadlines set out in the amended CRR, it is suggested that a staggered approach be taken, whereby the mandates would be delivered in three phases according to their priority, based on the rationale provided in the previous section. The proposed revised deadlines are meant to be the time when the work will be delivered at the latest. In addition, the work on some of the deliverables will start in the coming months (i.e. for the mandate on the possible breaches of large exposure limits).

*Table 2: Timetable of mandates related to large exposures*

Mandate	Original deadline	Proposed deadline
<b>Phase 1</b>		
Art. 390(9) of the CRR: draft RTS on the determination of the exposures arising from derivatives contracts and credit derivatives underlying a debt or equity instrument	March 2020	December 2020
Art. 403(4) of the CRR: Guidelines specifying the conditions for the substitution approach in respect of exposures collateralised by the market value of recognised collateral	December 2019	December 2020
Art. 430(7) on draft ITS: Supervisory reporting	June 2020	June 2020
<b>Phase 2</b>		
Art. 396(3) of the CRR: Guidelines specifying the exceptional circumstances under which the large exposure limits may be breached and corrective measures	No deadline	December 2021
<b>Phase 3</b>		
Article 394(4) on draft RTS specifying the criteria for the identification of shadow banking entities	June 2020	December 2021
Art. 4(4) of the CRR: draft RTS on connected clients	June 2020	December 2022
Art. 507(1) of the CRR: Report on the quantitative impact of the removal of, or the setting of a limit to, some exemptions to the large exposures framework	June 2021	December 2021

## 3. Roadmap for the delivery of the EBA mandates on Pillar 2

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### 3.1 Introduction and background

57. The Directive amending the Capital Requirements Directive (CRD 5) entered into force on 27 June and it will apply on 29 December 2020 with the exception of some provisions, as set out in Article 2 of the amending directive.<sup>14</sup>
58. This roadmap provides a general overview of the main changes included in the Pillar 2 framework stemming from the amended CRD (Title VII, Chapter 2) and CRR as well as an overview of the deliverables on which the EBA plans to work in the coming months and years. It also aims to provide a timeline for their completion.
59. This roadmap makes the link with the initial EBA Pillar 2 Roadmap that was published in April 2017.<sup>15</sup> Furthermore, the roadmap also explains the planned changes to the Pillar 2 framework, resulting from recent developments in the EU and international fora, as well as EBA findings from the ongoing monitoring and assessment of convergence of supervisory practices.<sup>16</sup>
60. In addition to the above, certain technical areas of the SREP Guidelines will be reviewed to ensure consistency with other EBA regulatory products that have been issued after its publication, in particular the EBA Guidelines on the management of non-performing and

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<sup>14</sup> Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures. OJ L 150, 7.6.2019, p. 253-295 (<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32019L0878>).

<sup>15</sup> EBA outlines roadmap of its plan to update 2017-2018 SREP (<https://eba.europa.eu/-/eba-outlines-roadmap-of-its-plan-to-update-2017-2018-srep>).

<sup>16</sup> As reflected in the most recent EBA Report on supervisory convergence, a good degree of progress was made by competent authorities in the implementation of the 2014 EBA Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing. Areas still requiring attention include the proportionate approach of the SREP Guidelines, the roll-out of individual risk scores for smaller and non-complex institutions and technical guidance on internal capital/liquidity adequacy assessment processes (ICAAP/ILAAP) linkages and their assessment criteria.

EBA report on convergence of supervisory practices, EBA-Op-2019-02, 14 March 2019 (<https://eba.europa.eu/documents/10180/2551996/Report+on+Convergence+of+Supervisory+Practices.pdf>).

forborne exposures,<sup>17</sup> the EBA Guidelines on loan origination and monitoring<sup>18</sup> and the revised EBA Guidelines on outsourcing arrangements.<sup>19</sup>

61. The initial EBA Pillar 2 Roadmap, published in April 2017, set out a multi-stage approach for a number of policy initiatives affecting Pillar 2 topics, including proposed changes driven by global regulatory developments, and the EBA's supervisory convergence assessments. That roadmap led to the publication in July 2018 of a number of EBA guidelines aimed at reinforcing the Pillar 2 framework.<sup>20</sup>

EBA guideline	Short title	Date of application
<b>Revised EBA Guidelines on common procedures and methodology for the supervisory review and evaluation process and supervisory stress testing</b>	SREP Guidelines	1 January 2019
<b>Revised EBA Guidelines on the management of interest rate risk arising from non-trading activities</b>	IRRBB Guidelines	30 June 2019 (with transitional provisions until 31 December 2019)
<b>EBA Guidelines on institutions' stress testing</b>	Stress Testing Guidelines	1 January 2019

62. The initial EBA Pillar 2 Roadmap already pointed to the necessity for a second revision of the SREP Guidelines and the EBA Guidelines on the management of interest rate risk arising from

<sup>17</sup> The EBA Guidelines on the management of non-performing and forborne exposures were developed in line with the action plan to tackle non-performing loans (NPLs) in Europe and preventing the build-up of NPLs in the future as set out by the European Council in July 2017. The guidelines are available on the EBA website (<https://eba.europa.eu/regulation-and-policy/credit-risk/guidelines-on-management-of-non-performing-and-forborne-exposures>).

<sup>18</sup> EBA Draft Guidelines on loan origination and monitoring were published in June 2019 for public consultation until 30 September 2019 (<https://eba.europa.eu/regulation-and-policy/credit-risk/guidelines-on-loan-origination-and-monitoring>).

<sup>19</sup> EBA Guidelines on outsourcing arrangements (<https://eba.europa.eu/-/eba-publishes-revised-guidelines-on-outsourcing-arrangements>).

<sup>20</sup> Revised EBA Guidelines on common procedures and methodology for the supervisory review and evaluation process and supervisory stress testing (<https://eba.europa.eu/regulation-and-policy/supervisory-review-and-evaluation-srep-and-pillar-2/guidelines-for-common-procedures-and-methodologies-for-the-supervisory-review-and-evaluation-process-srep-and-supervisory-stress-testing>).

Revised EBA Guidelines on the management of interest rate risk arising from non-trading activities (<https://eba.europa.eu/regulation-and-policy/supervisory-review/guidelines-on-technical-aspects-of-the-management-of-interest-rate-risk-arising-from-non-trading-activities-under-the-supervisory-review-process>).

EBA Guidelines on institutions' stress testing (<https://eba.europa.eu/regulation-and-policy/supervisory-review-and-evaluation-srep-and-pillar-2/guidelines-on-stress-testing2>).

non-trading activities (IRRBB Guidelines) after the publication of the revised Capital Requirements Directive (Directive (EU) 2019/87)<sup>21</sup> and Regulation (Regulation (EU) 2019/876).<sup>22</sup>

## 3.2 The EBA's policy strategy on Pillar 2 deliverables

### Changes to the Pillar 2 framework and mandates from CRD 5

63. CRD 5 made some changes to the Pillar 2 framework. In particular:
- a. A focus on proportionality led to the introduction of simple and conservative alternatives for smaller, less complex banks in terms of standards for and disclosures and reporting of interest rate risks in the banking book;
  - b. In light of sustainable finance, the EBA is mandated to assess the potential inclusion of environmental, social and governance (ESG) risks in the SREP review;
  - c. In view of the prudential supervisors' role in complementing the role of anti-money laundering (AML) authorities and participating actively in the fight against money laundering (ML) and terrorist financing (TF), the AML dimension is highlighted in several key prudential instruments such as the SREP<sup>23</sup>;
  - d. Pillar 2 capital add-ons are confined to a purely microprudential perspective in order to avoid overlaps with the existing macroprudential tools that aim to address systemic risk;
  - e. The conditions for applying Pillar 2 capital add-ons to cover specific risks to which a bank is exposed are clarified and the institution-specific nature of those requirements is emphasised. The add-ons are complemented by the possibility for supervisors to express supervisory expectations for banks to hold additional capital under the form of Pillar 2 guidance. The Pillar 2 guidance now also forms part of the joint decision on institution-specific prudential requirements for EU cross-border banking groups;
  - f. The framework for the interest rate risk in the non-trading book (IRRBB) is modified (in CRD 5 and CRR 2), introducing the credit spread risk in the banking book (CSRBB), as well as a common standardised approach and a simplified standardised methodology

<sup>21</sup> Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures. OJ L 150, 7.6.2019, p. 253-295 (<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32019L0878>).

<sup>22</sup> Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012. OJ L 150, 7.6.2019, p. 1-225 (<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32019R0876>).

<sup>23</sup> This is also in line with objective 3 of the Anti-Money Laundering Action Plan from the European Council adopted on 4 December 2018 to enhance supervisory convergence by providing common guidance on how to factor AML/CFT-related aspects into the prudential supervisory process: <https://www.consilium.europa.eu/media/37283/st15164-en18.pdf>

for IRRBB, and adding the net interest income (NII) perspective to the economic value of equity (EVE) perspective for the purposes of interest rate risk management, disclosures and prudential supervision.

64. Alongside the changes listed above, the amended CRD and CRR include new mandates for the EBA, being regulatory or implementing technical standards, guidelines or reports. The section below details both the changes and the content of the mandates and provides some rationale for the EBA's intentions on the way forward on these mandates. In general, the EBA expects to require a period of not less than 12 months to complete an assigned mandate in order to provide high-quality work, noting the need to conduct full consultations with stakeholders.
65. Further to the changes in CRD 5, it is envisaged that the review of the SREP Guidelines will be undertaken. The review will also aim to streamline and simplify the guidelines to facilitate their application. The goal is to provide a common set of uniform guidelines that are fit for purpose for the day-to-day work of supervisors.
66. The work on the review of the SREP Guidelines will take place in two phases. Areas that were identified as high priority will be included in the first phase of the review, and areas identified as medium priority will be included in the second phase. The revised SREP Guidelines will be published at the end of the second phase. An earlier publication can be envisaged upon further assessment for some of the high-priority areas in as far as the parts are stable and sufficiently autonomous. In particular, an early publication on the incorporation of ML/TF risks into the SREP process is planned because of the importance of the topic.

### Proportionality

67. Proportionality is embedded in the current SREP Guidelines through the minimum engagement model linked to the categorisation of institutions. The SREP Guidelines provide high-level criteria for competent authorities to classify institutions into four categories according to their size, structure, internal organisation, scope and nature and the complexity of their activities, also reflecting the level of systemic risk. The SREP categorisation drives the minimum engagement model, in which the frequency, depth and intensity of supervisory assessments vary depending on the category of the institution.
68. Proportionality is a key focus of the revised CRD/CRR framework. In CRR 2, a definition of 'small and non-complex institutions' is introduced. The definition is based on a set of quantitative and qualitative criteria. The aim of the new definition is to allow smaller and less complex institutions to bear less administrative burden and benefit from reduced disclosure requirements and from simpler and more conservative prudential standards. This ties in with the overall goal for the framework to be applied in a more proportionate way, taking into account the situation of smaller and less complex institutions and the aim to reduce compliance costs for these institutions.
69. The EBA is organising an impact assessment of the new CRR 2 definition of and will re-assess this categorisation against the existing SREP categorisation used for the small and non-complex

institutions. The assessment will also include a business model analysis that will complement the view of the population of small and non-complex institutions with the characteristics of the underlying institutions. The aim would be to align the SREP categorisation where relevant to the new CRR 2 definition of ‘small and non-complex institutions’ and to ensure the consistency of the proportionality approach across the different pillars.

70. In line with the mandate under Article 97(4a) of CRD 5, the EBA will reflect in its update of the SREP Guidelines how similar risk profiles will be assessed for the purposes of the SREP in order to ensure consistent and proportionate application of methodologies across the EU that are tailored to similar institutions. For this work, the EBA will leverage on the experience of the implementation of the existing SREP Guidelines and proportionality approaches and on the outcome of the business model assessment. The aim is to provide a sufficiently granular approach to proportionality and to maintain risk sensitivity for capital requirements under Pillar 2.
71. The CRD does not contain a specific timeline to deliver this mandate. As the SREP Guidelines are an important tool for supervisors, and a number of areas need to be reviewed based on the revised CRD, it has been suggested that the revised SREP Guidelines be published by December 2021.
72. As proportionality affects all parts of the guidelines, this work will run throughout the review of the SREP Guidelines.

### Sustainable finance

73. The CRD/CRR review is part of the risk reduction measures aimed at further strengthening the resilience of the banking sector. The goal is to promote financial stability, as well as contributing to the harmonious and sustainable financing of economic activity.
74. In the light of sustainable finance, and pursuant to Article 98(8) of CRD 5, the EBA must submit a report to the Commission by 28 June 2021 on the assessment of the potential inclusion of ESG risks in the SREP.
75. Based on the outcome of this report, the EBA does intend to update the SREP Guidelines to include guidance on how to include ESG risks in the SREP performed by competent authorities following the update of the prudential framework regarding the duties of banks to incorporate ESG factors into their financing and other activities.
76. As the inclusion of the ESG risks in the SREP Guidelines will depend on the outcome of the report, their inclusion is expected to take place in a future update of the SREP Guidelines. We will look at other ways of communicating expectations in the meantime.

### Assessment of ML/TF risks from a prudential perspective

77. As highlighted in the Commission Communication adopted in September 2018,<sup>24</sup> prudential and AML supervision are complementary and need to go hand in hand. Therefore, prudential supervisors of financial institutions need to consider AML-related aspects throughout their work.
78. Further to Article 97(6) of CRD 5 and the Council of the EU's action plan on AML,<sup>25</sup> the EBA in cooperation with prudential and AML/CFT (countering the financing of terrorism) supervisors needs to enhance supervisory convergence by providing common guidance on how to factor AML/CFT-related aspects into the prudential supervisory process, including in the context of the supervisory assessment for the purpose of the SREP.
79. In view of the Council action plan on AML, and given the urgency of the need provide guidance for the inclusion of AML/CFT-related aspects into the SREP, the work on this aspect will receive priority in the review of the SREP Guidelines.

### Microprudential perspective of Pillar 2

80. CRD 5 aims to make a clearer delineation of the areas of responsibility between competent and designated authorities. Competent authorities are responsible for the SREP and the imposition of corresponding institution-specific Pillar 2 capital requirements. In order for the Pillar 2 measures not to undermine the effectiveness of macroprudential measures, CRD 5 provides that the SREP and Pillar 2 requirements should be confined to a purely microprudential perspective. Therefore, no additional own funds requirement should be imposed to cover macroprudential or systemic risk.
81. In the revision of the SREP Guidelines, it will be made clear that Pillar 2 requirements should be set in relation to the an institution's specific situation and should not be used to address macroprudential risks.
82. These amendments will form part of the first phase of the revision of the SREP Guidelines. In this context, also the relevant sections on the assessment of risks to liquidity, funding and excessive leverage will be brought in line with the latest developments in the EU regulation. This includes the introduction of the binding leverage ratio requirement, the additional leverage ratio buffer for global systemically important institutions (G-SIIs) and the net stable funding ratio (NSFR) under Pillar 1.
83. The alignment of the provisions in the SREP Guidelines with the new liquidity, funding and leverage requirements will however take place in the second phase of the review of the SREP Guidelines. As these provisions were not within the scope of the last revision of the SREP Guidelines, some more elaborate work is needed. Given the recent application of the latest

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<sup>24</sup> Communication from the Commission, Strengthening the Union framework for prudential and anti-money laundering supervision for financial institutions, COM (2018) 645 final ([https://ec.europa.eu/commission/sites/beta-political/files/soteu2018-anti-money-laundering-communication-645\\_en.pdf](https://ec.europa.eu/commission/sites/beta-political/files/soteu2018-anti-money-laundering-communication-645_en.pdf)).

<sup>25</sup> Council conclusions of 4 December 2018 on anti-money laundering action plan (<https://www.consilium.europa.eu/media/37283/st15164-en18.pdf>).

requirements on these topics, it is deemed beneficial to gain sufficient experience on their application before their integration into the SREP process.

84. Pursuant to Article 438(b) of CRR 2, institutions will be required to disclose the amount and composition of additional own funds requirements based on the supervisory review process. In the current SREP Guidelines, the questions of transparency and public disclosure of SREP outcomes and supervisory measures, in relation to additional own funds requirements, are not addressed. The new requirement under CRR 2 for institutions to disclose the Pillar 2 capital requirements will be taken into account in the review of the SREP Guidelines.
85. The review of the SREP Guidelines in terms of transparency and disclosures of Pillar 2 capital requirements will take place in the second phase of the review of the guidelines. This will allow some time to discuss and coordinate with other bodies that are working on the matter. In view of the importance of transparency, both the market and supervisory perspectives will require a good common understanding.
86. The review of the SREP Guidelines will also provide the opportunity to align the treatment of risks and definitions in the guidelines with the comprehensive supervisory risk taxonomy that is currently under development to ensure a common understanding of the risks and their categorisation.
87. In the course of the revision, the risk definitions will be aligned with those included in the final taxonomy and the treatment of risks in terms of their categorisation will be aligned accordingly.
88. As mentioned, the common supervisory risk taxonomy will strengthen convergence in the identification and assessment of risks and a consistent determination of Pillar 2 capital requirements. In this respect, the revision of the guidance on the setting of Pillar 2 requirements in the SREP Guidelines will leverage on the mapping in the supervisory risk taxonomy of all prudential risks with the corresponding prudential tools according to their coverage of Pillar 1 or Pillar 2.
89. In view of the different areas that will need to be aligned with the common supervisory risk taxonomy, and taking into account the timeline for the actual completion of the taxonomy, the work on alignment will be done across both phases of the revision of the SREP Guidelines.

### Pillar 2 capital add-ons and Pillar 2 guidance

90. Whereas the CRD 5 specifies that the Pillar 2 capital requirements need to be purely institution specific, it also specifies the conditions for their application to cover the specific risks a bank is exposed to. Furthermore, CRD 5 refers to the use of ICAAP calculations for the determination of capital add-ons. Under Article 104b of CRD 5, the Pillar 2 capital add-ons are complemented by the possibility for competent authorities to express supervisory expectations for banks to hold additional capital under the form of Pillar 2 guidance. Pursuant to Article 113(1)(c) of CRD 5, the Pillar 2 guidance should form part of the joint decision on institution-specific prudential requirements in the framework of colleges of supervisors.



91. In the revision of the SREP Guidelines, the conditions for setting Pillar 2 capital requirements, as well as the use of ICAAP calculations for the determination of the capital add-ons, will be clarified in line with the new CRD provisions. Provisions on the setting of Pillar 2 guidance were included in the last revision of the SREP Guidelines and will be cross-checked to ensure full alliance with the new CRD provisions.
92. In particular, the guidelines will need to be aligned with Article 104a of CRD 5 on the Pillar 2 capital coverage of risks or elements of risks identified as material pursuant to the SREP assessment that are not covered or not sufficiently covered by the own funds requirements under Pillar 1. For this, the work will leverage on the supervisory risk taxonomy that is currently under development, which aims to ensure a common understanding of risks and their categorisation to strengthen convergence in the identification and assessment of risks and consistent determination of Pillar 2 capital requirements. The supervisory risk taxonomy will map all prudential risks with the corresponding prudential tools according to their coverage of Pillar 1 or Pillar 2, taking into account the changed landscape of the revised CRD/CRR framework. This will provide greater clarity on how to apply and calibrate Pillar 2 for all risks, having regard to the taxonomy agreed by the competent authorities.
93. The work on the inclusion of the Pillar 2 guidance into the joint decision process for EU cross-border banking groups will be taken up in the planned revision of the ITS on joint decisions on institution-specific prudential requirements.<sup>26</sup>
94. In view of the importance of supervisory convergence in the application of Pillar 2 capital requirements and Pillar 2 guidance, both of which are important tools for supervisors, the update of the related provisions in line with the new CRD will form part of the first phase of the revision of the SREP Guidelines.

#### Framework for interest rate risk in the non-trading book (IRRBB)

95. As set out in the initial EBA Pillar 2 Roadmap, new international standards on the management of IRRBB are implemented at the EU level in a multi-phased approach.<sup>27</sup>
96. In the first phase, the EBA Guidelines on the management of interest rate risk in the non-trading book (IRRBB Guidelines) addressed to institutions were revised in the light of the new

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<sup>26</sup> Implementing Technical Standards on joint decisions on institution-specific prudential requirements (<https://eba.europa.eu/regulation-and-policy/colleges-of-supervisors/draft-implementing-technical-standards-on-joint-decisions-on-institution-specific-prudential-requirements>).

<sup>27</sup> In particular the Basel Committee on Banking Supervision Standards on the management of IRRBB published in April 2016 (<http://www.bis.org/bcbs/publ/d368.htm>).

standards.<sup>28</sup> In parallel, the guidance on the supervisory assessment of IRRBB in the SREP Guidelines was also reviewed to align it with the new IRRBB Guidelines.<sup>29</sup>

97. In the second phase, the interest rate risk framework in the revised CRD and CRR was amended following the agreed international standards. The amendments include the introduction of a common standardised approach, the requirement to monitor and assess CSRBB and the addition of the NII perspective to complement the EVE for the interest rate risk management and the supervisory outlier test.
98. The revised CRD also includes a number of mandates for the EBA to develop guidelines and regulatory technical standards on IRRBB:
- a. Under CRD Article 98(5a) of CRD 5, the EBA is mandated to submit to the Commission by 28 June 2020 draft regulatory technical standards to specify for the purpose of the supervisory outlier test on IRRBB (under the NII and EVE perspective) supervisory shock scenarios, common modelling and parametric assumptions, excluding behavioural assumptions, and what constitutes a large decline under NII.
  - b. Following Article 84(5) of CRD 5, the EBA is mandated to submit to the Commission by 28 June 2020 draft regulatory technical standards to specify a standardised methodology and a simplified standardised methodology (for small and non-complex institutions) that institutions may use for the purpose of identifying, evaluating, managing and mitigating the risks arising from potential changes in interest rates that affect both the EVE and the NII of an institution's non-trading book activities.
  - c. Pursuant to Article 84(6) of CRD 5, the EBA is mandated to submit to the Commission by 28 June 2020 guidelines to specify the criteria for the evaluation by an institution's internal system of IRRBB, for the identification, management and mitigation by institutions of IRRBB, for the assessment and monitoring by institutions of CSRBB and for determining which internal systems implemented by institutions for IRRBB purposes are not satisfactory.
99. It must be recalled that the current EBA IRRBB Guidelines have applied since 30 June 2019 to financial institutions<sup>30</sup> and will remain in force until their revision in line with the mandate under the revised CRD.

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<sup>28</sup> Revised EBA Guidelines on the management of interest rate risk arising from non-trading activities (<https://eba.europa.eu/regulation-and-policy/supervisory-review/guidelines-on-technical-aspects-of-the-management-of-interest-rate-risk-arising-from-non-trading-activities-under-the-supervisory-review-process>).

<sup>29</sup> Revised EBA Guidelines on common procedures and methodology for the supervisory review and evaluation process and supervisory stress testing (<https://eba.europa.eu/regulation-and-policy/supervisory-review-and-evaluation-srep-and-pillar-2/guidelines-for-common-procedures-and-methodologies-for-the-supervisory-review-and-evaluation-process-srep-and-supervisory-stress-testing>).

<sup>30</sup> The Guidelines include transitional arrangements for institutions that fall under SREP categories 3 and 4 to apply the provisions on the monitoring and assessment of CSRBB and on the additional EVE calculations under the six shock scenarios as from 31 December 2019.

100. Following the finalisation of the technical standards and the revised EBA IRRBB Guidelines under the CRD mandates, the section of the EBA SREP Guidelines on the supervisory assessment of IRRBB management and controls will be aligned with the new IRRBB-related guidance for institutions.
101. Depending on the final timeline for the development of the technical standards and the revision of the EBA IRRBB Guidelines, the work on the revision of the IRRBB section of the SREP Guidelines is expected to take place in a future update of the guidelines.

## Other changes

### New framework for investment firms

102. The scope of the SREP Guidelines will be reduced to credit institutions in view of the upcoming new framework for investment firms under the Investment Firms Directive and Regulation (IFD/IFR).<sup>31</sup> Whereas at present investment firms fall within the scope of the EBA SREP Guidelines under the CRD, the current proposal of the IFD includes a mandate for the EBA to develop SREP Guidelines specifically addressed to investment firms; hence, investment firms will be removed from the scope of the SREP Guidelines under the CRD.
103. The amendment of the scope of the SREP Guidelines will be included in the first phase of the review.

## 3.3 Expected timeline for deliverables

104. Based on the above, the tentative timeline for EBA deliverables is included in the following figure. As explained before, the EBA normally requires a period of not less than 12 months to complete an assigned mandate.
105. The tentative deadline for delivery of the revised SREP Guidelines is the end of 2021. This timeline is indicative and the timing of the actual completion will depend on a number of factors.

Table 3: Timeline of mandates related to Pillar 2 deliverables

Mandate	Original deadline	Proposed deadline
<b>Mandate related to SREP Guidelines</b>		
Art. 97(4a) of the CRD: Guidelines to specify how similar risk profiles shall be assessed for the purposes of the SREP	No deadline	December 2021

<sup>31</sup> Proposal for a regulation of the European Parliament and of the Council on the prudential requirements of investment firms (IFR) ([http://www.europarl.europa.eu/doceo/document/TA-8-2019-0378\\_EN.html?redirect](http://www.europarl.europa.eu/doceo/document/TA-8-2019-0378_EN.html?redirect)), Proposal for a directive of the European Parliament and of the Council on the prudential supervision of investment firms (IFD) ([http://www.europarl.europa.eu/doceo/document/TA-8-2019-0377\\_EN.html?redirect](http://www.europarl.europa.eu/doceo/document/TA-8-2019-0377_EN.html?redirect)).

and to ensure the consistent and proportionate application of methodologies across the Union that are tailored to similar institutions.		
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## 4. Roadmap for the delivery of the EBA mandates on resolution

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### 4.1 Introduction

106. The bank recovery and resolution directive (BRRD), adopted in spring 2014, requires banks to prepare recovery plans to overcome financial distress and grants national authorities powers to pursue an orderly resolution of failing banks, ensuring that the banks' shareholders and creditors pay their share of the costs. The EBA had delivered numerous mandates in order to enable an effective implementation of this framework.
107. In April 2019, the European Parliament and the Council of the European Union adopted the Banking Package, which included amendments to certain provisions of the BRRD and of the Single Resolution Mechanism Regulation, but also to the Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR).
108. A part of the provisions in the package relates to MREL. In particular, it provides measures to align the existing legislative framework with the relevant international standard issued by the Financial Stability Board on the Total Loss Absorbing Capacity (TLAC) and includes significant changes to the calibration, eligibility criteria and group allocation of the MREL requirement, and the consequences of its breach. In addition, the text tackles the issue of contractual recognition of bail-in for liabilities issued under third-country laws, as well as the powers of resolution authorities to suspend payments (moratorium powers).
109. The Banking Package includes numerous new mandates for the EBA, being regulatory or implementing technical standards (RTS or ITS), guidelines or reports. Through the delivery of these mandates EBA will contribute to implement some outstanding elements to progress and complete the European post-crisis regulatory reforms, in particular in order to achieve an effective and credible bail-in tool through a strengthening of the MREL framework.
110. This roadmap focuses on the mandates received by the EBA related to the crisis management framework. Within this scope, the EBA received a total of 14 related mandates distributed between BRRD 2 and CRR 2.
111. The roadmap outlines the EBA's plans for the delivery of those mandates and provides a timeline for their completion.

### 4.2 The EBA's policy strategy on resolution

112. The section below specifies the scope of the mandates and explains the rationale guiding the roadmap.

113. In its approach to prioritisation, the EBA has started from the timelines set out for each mandate by the co-legislators. However, those timelines are very ambitious and they may not allow the EBA sufficient time for an effective and practical delivery of all products for a variety of reasons, including the need to agree on robust grounds across the EBA membership, relying on adequate information and a common understanding of what are good policies to implement as well as the need to properly consult an adequate range of stakeholders. Considering the time constraints, in order to ensure that proper internal governance and public consultation processes are followed, it is the EBA's assessment that in general it will not be possible to deliver in less than 9-12 months.
114. The EBA has assessed the operational feasibility of delivering the mandates, taking into account their volume and complexity and the relative resources required to deliver high-quality output. Beyond the sequencing driven by the legislative deadlines, the mandates have been prioritised on the basis of operational feasibility and with a view to minimising the impact on the progress of resolution planning.

#### 4.2.1 Mandates related to MREL eligible liabilities instruments

##### RTS on the definition of indirect funding and incentives to redeem eligible liabilities instruments — Article 72b(7) of the CRR

115. These RTS should specify:
- d. the applicable forms and nature of indirect funding of eligible liabilities, knowing that, on the basis of Article 72b(2)(c) of the CRR, 'Liabilities shall qualify as eligible liabilities instruments if the acquisition of ownership is not funded directly by the resolution entity';
  - e. the forms and nature of incentives to redeem, for the purpose of the condition for a liability to qualify as an eligible liability (Article 72b(2)(g) and Article 72c(3) of the CRR).
116. These RTS should be fully aligned with the delegated acts that deal with the same issue for own funds (Articles 28(5) and 52(2) of the CRR).

##### RTS on permission to reduce eligible liabilities instruments — Article 78a(3) of the CRR

117. These RTS relate to the redemption of eligible liabilities and what is commonly referred to as the 'permissions regime' or 'prior approval regime'. Importantly, the RTS require the EBA to develop the procedure — in terms of coordination between competent and resolution authorities, timelines and information — for resolution authorities to follow to provide prior permission to banks to replace or reduce eligible liabilities instruments. The obligation to seek approval applies to global systemically important institutions (G-SII) and other institutions with minimum requirements for own funds and eligible liabilities (MREL) decisions higher than the

loss absorption amount. In addition, the need to align these RTS with the RTS on the same topic for the own funds regime is embedded in primary law.

118. These RTS are important for progressing resolution preparedness on the basis of the following:
- f. As part of the CRR, the need for institutions to seek permission for the redemption of eligible liabilities became immediately applicable on 27 June 2019. While the European mandate is being developed, resolution authorities have to put in place transitional arrangements. The absence of a European standard could give rise to inconsistent practices applied to banks across Europe.
  - g. Although supervisory authorities have been dealing with such matters for some time with respect to own funds instruments, this is generally a new role for resolution authorities. It is important therefore that in this area the development of a comprehensive approach is fully aligned with the own funds regime and that the analysis of the related instruments leverages on the knowledge acquired from capital instruments.
119. Although work on those mandates started immediately, the RTS cannot be completed in 6 months, as planned by the legislature. Beyond the usual governance and consultation requirements for regulatory products, this is also due to the complexity of the topic and to the need for the work to be developed in parallel to the work on own funds so that the redemption regimes for both the ongoing and the completed topic can be aligned. However, given the importance of such RTS to the authorities and the institutions, the deadline currently proposed has to be considered at the latest.

#### Quality of own funds and eligible liabilities review — Article 80 of the CRR

120. The amended Article 80 of the CRR expands the existing mandate of the EBA from the review of the quality of own funds to encompass MREL total loss-absorbing capacity (TLAC) eligible liabilities. In this context, the EBA will draw on the methodology already established in the area of own funds, in which it has published several reports<sup>32</sup>, to foster resolvability through high-quality eligible liabilities.

#### 4.2.2 Mandates related to MREL reporting and monitoring

##### ITS on MREL/TLAC reporting and disclosure — Article 45i(5) and (6) of the BRRD and Article 430(7) and Article 434a of the CRR

121. These ITS require the EBA to develop a harmonised framework for reporting and disclosure of MREL. The reporting of MREL from banks to resolution authorities in an automated and standardised format is fundamental to allow authorities to efficiently monitor banks'

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<sup>32</sup> See EBA Report on the monitoring of CET 1 Instruments Issued by EU Institutions, 22 July 2019, and EBA Report on the monitoring of additional Tier 1 (AT1) Instruments of EU Institutions, 20 July 2019.

compliance with their key requirements. Disclosure and reporting are closely linked and should thus be developed together.

122. Work on these ITS has already started and public consultation should be launched shortly. The ITS should be therefore delivered to the Commission by the deadline set (i.e. June 2020).

**Report on MREL application, levels and shortfalls and Impact assessment report on MREL — Article 45I(1) and (2) of the BRRD**

123. The EBA is due to monitor the implementation and consistency of MREL across Europe. A report on MREL application, levels and shortfalls based on 2018 data will be published by the end of 2019.
124. In Article 45I(1) of the BRRD, the EBA is required to submit to the Commission on an annual basis starting in September 2020 a report on MREL application, levels and shortfalls. In addition to this report, Article 45I(2) of the BRRD mandates the EBA to deliver every 3 years an impact assessment of MREL in the EU banking sector on a number of aspects including financial markets and the business models and balance sheet structures of institutions, with the first of such reports to be delivered by the end of 2022.

**Uniform templates for reporting MREL decisions to the EBA — Article 45j(2) of the BRRD**

125. This mandate requires the EBA to update the existing ITS on reporting of MREL decisions by resolution authorities to the EBA to ensure adequate reporting of MREL decisions for entities. Although this mandate is relevant to monitoring the implementation of MREL across jurisdictions in Europe, it does not have a direct impact on the progress of resolution planning.

**Report on cross-holdings of MREL among G-SII and O-SII — Article 504a of the CRR**

126. The EBA is to report to the Commission on the amounts and distribution of holdings of eligible liabilities instruments among institutions identified as G-SIIs and other systemically important institutions (O-SII). Based on the EBA report, the Commission will report by 28 June 2023 to the European Parliament and to the Council on the appropriate treatment of such holdings and will include a legislative proposal, where appropriate.

### **4.2.3 Mandates related to setting MREL**

**RTS on the methodology to estimate Pillar 2 requirement (P2R) and combined buffer requirement (CBR) for resolution groups not subject to P2R under CRD 4 — Article 45c(4) of the BRRD**

127. This mandate is for RTS that develop the methodology to be used by resolution authorities to estimate the requirements for P2R and CBR for resolution entities, where the resolution group is not subject to P2R requirements under CRD 4. This specific aspect should have an impact on a minority of banks; it will be important, however, to consider the aspect of intense and comprehensive cooperation between resolution and competent authorities.



### RTS specifying methods to avoid internal MREL instruments hampering the smooth implementation of the resolution strategy — Article 45f(60) of the BRRD

128. These RTS relate to the topic of indirect funding for internal MREL specifying methods to avoid instruments recognised for this purpose not ensuring proper transfer of losses to the resolution entity and ultimately hampering the smooth implementation of the resolution strategy. The RTS should specify a deduction regime (or an equivalent), ensuring that ‘daisy chain funding structures’ are equivalent to direct funding and avoiding double counting of instruments.
129. This is an important issue to be addressed to ensure effective execution of the resolution strategy, and policy will need to be developed taking into account the internal MREL practices set in the meantime by resolution authorities. Although work on this mandate has already started, the RTS cannot be completed in 6 months as planned by the legislature. Beyond the usual governance and consultation requirements of regulatory products, this is also due to the complexity of the topic.

#### 4.2.4 Mandates related to contractual terms on bail-in and resolution stay powers

### RTS specifying further clarification with regard to the exclusions from contractual recognition of bail-in and ITS on notification to resolution authorities — Article 55(6)(8) of the BRRD

130. These mandates comprise RTS and ITS. The RTS require further clarification of (a) the conditions under which it would be illegal or impracticable for an institution to include the contractual term from Article 55(1), (b) the conditions under which the resolution authority requires the inclusion of the contractual term and (c) a reasonable time in which the resolution authority requires the inclusion. The ITS have to specify uniform formats and templates for the notification to resolution authorities for the purposes of Article 55(2).

### RTS determining the contractual terms required in financial contracts governed by third country law for the recognition of resolution stay powers — Article 71a(5) of the BRRD

131. These RTS require the EBA to further determine the contents of the term to be inserted in contracts under third country law to recognise the resolution stay powers provided to resolution authorities.
132. Providing clarity to banks with regard to the contractual terms they should be including in third country law contracts will increase legal certainty and will facilitate the negotiations with counterparties. However, not including such contractual terms required in accordance with Article 71a(1) does not prevent authorities from using their relevant powers.

## 4.3 Expected timeline for deliverables

133. The tentative timelines for the EBA’s delivery of the resolution-related mandates set out under BRRD 2/CRR 2 are detailed in the following table.

134. For the reasons explained earlier, in particular the complexity of the issues and the need to adhere to proper governance procedures, including public consultation processes, it is clear that a significant number of the mandates will not be delivered within the timelines envisaged in the texts of the directives and regulations. However, the approach taken should nevertheless minimise the impact of the delay on the progress of resolution planning.

Table 4: Timetable of mandates related to resolution

Mandate	Original deadline	Proposed deadline
<b>Mandates related to MREL eligible liabilities instruments</b>		
Art. 72b(7) of the CRR: RTS on the definition of indirect funding and incentives to redeem eligible liabilities instruments	December 2019	December 2020
Art. 78a(3) of the CRR: RTS on permission to reduce eligible liabilities instruments	December 2019	December 2020
Art. 80 of the CRR: Quality of own funds and eligible liabilities review	N.A.	Continuing
<b>Mandates related to MREL reporting and monitoring</b>		
Art. 45i(5) of the BRRD and Art. 430(7) of the CRR: ITS on MREL/TLAC reporting	June 2020	June 2020
Art. 45i(6) and the BRRD and Art. 434a of the CRR: ITS on MREL/TLAC disclosure	June 2020	June 2020
Art. 45l(1) of the BRRD: Report on MREL application, levels and shortfalls	September 2020	September 2020
Art. 45l(2) of the BRRD: Impact assessment report on MREL	December 2022	December 2022
Art. 45j(2) of the BRRD: ITS on MREL decisions reporting to the EBA	June 2020	December 2020
Art. 504a of the BRRD: Report on cross-holdings of MREL among G-SIs and O-SIs	June 2022	June 2022

<b>Mandates related to setting MREL</b>		
Art. 45c(4) of the BRRD: RTS on the methodology to estimate P2R and CBR for resolution groups not subject to P2R under CRD 4	December 2019	December 2020
Art. 45f(6) of the BRRD: RTS specifying methods to avoid internal MREL instruments hampering the smooth implementation of the resolution strategy	December 2019	December 2020
<b>Mandates related to contractual terms on bail-in and resolution stay powers</b>		
Art. 55(6) of the BRRD: RTS specifying further clarification with regard to the exclusions from contractual recognition of bail-in	June 2020	December 2020
Art. 55(8) of the BRRD: ITS on notification to resolution authorities under Article 55 of the BRRD	June 2020	December 2020
Art. 71a(5) of the BRRD: RTS determining the contents of the contractual terms required in financial contracts governed by third country law for the recognition of resolution stay powers	June 2020	December 2020

## 5. Roadmap on the delivery of the EBA mandates on Pillar 3 disclosures

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### 5.1 Introduction and background

135. Following the recent updates to the regulatory frameworks for credit institutions and investment firms, and the publication in 2018 of the European Commission's action plan on sustainable finance, the EBA is implementing a new strategy on its policy regarding institutions' Pillar 3 disclosures that should foster the role of institutions' disclosures in promoting market discipline. The key targets of this strategy are:
- a. optimise the Pillar 3 policy framework, providing a single comprehensive package and thus improving clarity for users of information;
  - b. promote market discipline further, by increasing the consistency and comparability of the information disclosed by institutions;
  - c. facilitate access for users of information to key information by introducing the new key metrics templates;
  - d. foster ease of use for institutions by facilitating their access to and understanding of all the disclosure templates and tables;
  - e. increase the efficiency of institutions' disclosures and reduce costs via technology, through the integration of quantitative data with supervisory reporting;
  - f. promote the awareness of external stakeholders of the relevance of the role of institutions in the transition to a green economy.
136. The EBA will implement its Pillar 3 strategy through the development of the following deliverables:
- a. all-inclusive regulatory products, including:
    - i. comprehensive implementing technical standards (ITS), applicable to all institutions subject to the disclosure requirements under Part Eight of the Capital Requirements Regulation (CRR), including environmental, social and governance (ESG) disclosures;
    - ii. comprehensive ITS on disclosure, applicable to all investment firms under the scope of the new regulation on investment firms;

- iii. ITS on minimum requirement for own funds and eligible liabilities (MREL) and total loss-absorbing capacity (TLAC) disclosures, as defined in the Bank Recovery and Resolution Directive (BRRD) and Part Eight of the CRR;
    - b. integration with reporting, including mapping of all quantitative templates to supervisory reporting;
    - c. the EBA disclosure data hub, which should serve as a single platform for users of information to have common access to the quantitative data disclosed by institutions in their Pillar 3 reports.
137. Currently, the EBA Pillar 3 policy framework is disseminated across a range of different regulatory products, with a limited scope in terms of disclosures and institutions, following the partial mandates included in the Level 1 text. The framework includes ITS and regulatory technical standards (RTS) on disclosure of own funds, leverage ratio, countercyclical capital buffers and asset encumbrance. It also includes guidelines on disclosures under Part Eight of the CRR, mainly applicable to global systematically important institutions (G-SIIs) and other systematically important institutions (O-SIIs); guidelines on disclosure of non-performing and forborne exposures; and guidelines on disclosure requirements under the International Financial Reporting Standard 9 (IFRS 9) transitional arrangements.
138. The EBA is in the process of implementing a comprehensive, more standardised approach in terms of its policy regarding institutions' Pillar 3 disclosures. This roadmap provides an overview of the strategy that the EBA is planning to implement in the short and medium term, and the timeline, process and deliverables that the EBA is deploying for this purpose.
139. The publication of CRR 2 and BRRD 2, the proposal for a regulation on the prudential requirements of investment firms, the finalisation of the Basel III Pillar 3 framework and the EBA strategic decision to integrate institutions' reporting and Pillar 3 disclosure frameworks constitute key milestones that have contributed to triggering and shaping the EBA's strategy:
- a. Both **CRR 2** and **BRRD 2** include a comprehensive overhaul of the Pillar 3 disclosures with which institutions are required to comply. In addition, the amendments to the Pillar 1 and Pillar 2 regulatory frameworks involve the need for further alignment of institutions' Pillar 3 disclosures with these changes. Both regulations include mandates for the EBA to develop disclosure requirements.
  - b. The proposal for a **regulation on the prudential requirements of investment firms** includes specific disclosure requirements for the investment firms within the scope of the regulation and a mandate to the EBA to develop these disclosure requirements.
  - c. The **full review of the Basel Committee on Banking Supervision (BCBS) Pillar 3 standards** as part of the Basel III post-crisis reform and the need for institutions' information on their key risks to be comparable with that of their international

peers are also key drivers of the EBA's upcoming review of and change in strategy on Pillar 3 disclosures, in alignment with the relevant international standards.

- d. Finally, the commonalities of the information that institutions have to report to their supervisors and the regulatory information that they have to make public in the interest of investors and external stakeholders drove the EBA Board of Supervisors' strategic decision that consistency and **integration between the reporting and disclosure frameworks** should be targeted to the extent possible. The implementation of this decision should take into account the different levels of granularity and that the objectives to be fulfilled are not the same.

140. In addition, the Commission's action plan on sustainable finance, published in 2018, underlines the relevance of the role of financial institutions in the transition to a sustainable economy, and the importance of public disclosures as a tool to promote awareness and market discipline in this transition.

141. As part of this action plan, large institutions that have issued securities that are admitted to trading on a regulated market of any EU Member State are required to disclose information on ESG risks from 28 June 2022, including physical risks and transition risks. Following the EBA mandate to develop Pillar 3 disclosure requirements under Part Eight of the CRR, including for the ESG risk-related disclosures, sustainable finance is another key aspect of the EBA's strategy on institutions' Pillar 3 disclosures.

## 5.2 The EBA's policy strategy on institutions' disclosures

142. The key objectives of the EBA's strategy in terms of policy on institutions' Pillar 3 disclosures are outlined below:

- a. **Optimise the framework, with more clarity for users of information**: we will move from a silo approach, with different policy products for different topics, to an overarching policy product, with a more rational approach. The new framework is being built with the aims of avoiding overlapping information in different templates and promoting a sensible and comparable flow of information on different risks and within the same risk/topic. In practice, this contributes to a more efficient approach for institutions, through the elimination/merger of templates in which similar or even redundant information was required.
- b. **Promote market discipline further, by increasing the consistency and comparability of the information disclosed** by institutions. This goal will be achieved in several ways:
  - i. **alignment with the Basel Pillar 3 standards**, which will ensure comparability of the information disclosed by EU institutions with their internationally active non-EU peers;

- ii. **fostering the use of fixed templates** for the disclosure of quantitative information;
  - iii. **providing more standardisation by using common and clear definitions** and instructions that ensure that the qualitative and quantitative information disclosed by institutions is comparable;
  - iv. in the case of quantitative information, **comparability will be further ensured through the integration with reporting**, as the framework will provide for each disclosure data point mapping to the relevant reporting data points. The quantitative disclosure will benefit not only from the application of common definitions but also from the validation rules that are applicable to the relevant reporting templates, thus increasing comparability and also reducing the risk of errors.
- c. **Facilitate access for users of information to key information** by introducing the new **key metrics templates (one for prudential information and another for resolution-relevant information)** that will include the most relevant solvency, liquidity and resolution indicators, and to the qualitative explanations that institutions will have to provide for each type of risk and for the general risk management policies and processes.
- d. **Foster ease of use for institutions by facilitating their access to and understanding of all the disclosure templates and tables** that they need to populate and disclose. The EBA will achieve this through the implementation of a comprehensive single policy framework, integrated in a single set of implementing standards. The new comprehensive ITS will replace the existing various rules and regulatory products, complementing them with templates and tables for those disclosure requirements for which no uniform format is implemented in the EU.
- e. **Increase the efficiency of institutions' disclosures and reduce costs via technology**, by ensuring that institutions do not have to disclose quantitative information in addition to the data that they have to report. Once full integration between reporting and disclosures is achieved, the new framework may allow the EBA to further facilitate regulatory disclosures for small institutions by taking care of their quantitative Pillar 3 disclosures.
- f. Finally, **promote the awareness of external stakeholders of the relevance of the role of institutions in the transition to a green economy**, encouraging institutions to support their customers in this transition by implementing disclosures regarding ESG risks. The EBA will develop ESG Pillar 3 disclosures, based on the mandate included in the CRR in 2021, to be applicable from 2022, including disclosures of climate change-related information such as a green assets ratio. As a step towards facilitating these disclosures, and to inform the future EBA's standards on ESG

disclosures, the EBA could encourage voluntary disclosure of a limited number of key metrics, which would facilitate the move towards full disclosure by credit institutions based on the EBA technical standards.<sup>33</sup>

### Proportionality in Pillar 3 disclosures

143. CRR 2 introduced definitions of ‘small and less complex institutions’ and ‘large institutions’ for greater proportionality. The revised Pillar 3 framework is reflected in Part Eight, which defines which disclosures are applicable to different institutions, depending on their size and complexity and on whether they are listed or non-listed institutions. Small and non-complex institutions’ disclosures will focus on key metrics, while large and listed institutions will disclose more detailed information.
144. Proportionality will also be reflected in the frequency of disclosures as well as in disclosure formats, ensuring that enough information is conveyed to assess the risk profiles of different institutions. In addition, the EBA will introduce thresholds to trigger additional disclosures for large banks based on their risk profiles, to ensure that users of information have ‘sufficiently comprehensive and comparable information for users of that information to assess the risk profiles of institutions and their degree of compliance with the requirements laid down in Parts One to Seven’.

### The EBA as the EU Pillar 3 disclosure hub

145. The EBA and other regulators have taken significant steps to enhance and standardise regulatory disclosures with the aim of increasing market discipline, consistency and comparability, and making the use of disclosures more efficient. In addition, the EBA has contributed extensively to improving understanding of the EU banking sector’s solvency, risks and exposures, and to fostering market discipline in the single market, through its annual transparency exercise, which provides the wider public with a consistent tool to access comprehensive data on the EU banking system. However, the EBA sees room for further facilitating access to regulatory disclosures for peer analysis.
146. The EBA is currently entering the final phase of upgrading its supervisory data platform, which supports data collection, data validation, data integration and report monitoring. The culmination of this work will establish the EBA as an EU-wide data hub, at the service of competent authorities and the public. Building on this data infrastructure, the EBA intends to establish an EU-wide hub for Pillar 3 disclosures. Individual institutions’ quantitative disclosures would be available in one place, and information users would be able to download and use the Pillar 3 information disclosed by all institutions from the EBA hub, in a harmonised format.
147. The current ongoing review of the Pillar 3 framework to deliver comprehensive, more standardised disclosure requirements paves the way for the EBA to develop a more technical framework for Pillar 3 disclosures, similar to the EBA supervisory reporting framework. A

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<sup>33</sup> The EBA plans to publish its action plan on sustainable finance in the near future; it will include a cross-reference to disclosures on and short-term policy actions in this field.



standardised technical framework would allow the centralisation of information disclosed and enable users to explore the data more easily and in a more systematic way.

148. This centralised disclosure hub would also provide an opportunity to further reduce compliance costs for small and non-complex institutions. The EBA could be tasked with producing the key metrics for Pillar 3 disclosures to exempt small institutions from this obligation. The hub would centralise the Pillar 3 quantitative information not only for small institutions but also for large and other institutions, for which the quantitative data that they have to disclose would be disclosed also by the EBA. The disclosure hub would provide common access to EU institutions' quantitative information, in a similar way to what the EBA currently does with the transparency exercise but more comprehensively and using the Pillar 3 templates, which are aligned with international standards. Initial steps in this direction have already been taken in relation to the 2019 EBA transparency exercise, for which two templates have been developed mirroring the relevant Pillar 3 templates.

### 5.3 Expected timeline for deliverables

149. The main deliverables for the new disclosure strategy and framework will include the following.
- a. **Implementing technical standards:**
    - iv. comprehensive ITS, applicable to all institutions subject to the disclosure requirements under Part Eight of the CRR, including ESG disclosures;
    - v. comprehensive ITS on disclosure, applicable to all investment firms within the scope of the new regulation on investment firms, implementing the disclosure requirements on risk management objectives and policies, governance, own funds, capital requirements, remuneration policy and practices, investment policy and ESG-related risks;
    - vi. ITS on MREL and TLAC disclosures, as defined in the BRRD and Part Eight of the CRR.
  - b. **Mapping of all quantitative templates to supervisory reporting**, data point by data point, to facilitate institutions' implementation.
  - c. In the medium/long term, **the EBA disclosure data hub** will serve as a single platform for users of information to have common access to the quantitative data disclosed by institutions in their Pillar 3 reports. The Pillar 3 hub could also support small and other non-listed institutions in complying with their Pillar 3 quantitative disclosure requirements.
150. The comprehensive ITS under Part Eight of the CRR will cover disclosure of the following topics:
- a. risk management objectives and policies;

- b. scope of application;
  - c. own funds;
  - d. own funds requirements and risk weighted exposure amounts;
  - e. exposures to counterparty credit risk;
  - f. countercyclical capital buffers;
  - g. indicators of global systemic importance;
  - h. exposures to credit risk and dilution risk;
  - i. encumbered and unencumbered assets;
  - j. the use of standardised and internal ratings based (IRB) approaches (credit risk);
  - k. exposures to market risk;
  - l. operational risk;
  - m. interest rate risk in the banking book (IRRBB);
  - n. exposure to securitisation positions;
  - o. ESG risks;
  - p. remuneration policy;
  - q. leverage ratio;
  - r. liquidity requirements (liquidity coverage ratio (LCR) and net stable funding ratio (NSFR));
  - s. the use of credit risk mitigation (CRM) techniques.
151. The EBA plans to deliver the mandates following the timelines provided by the legislation, with the aim of providing adequate time for implementation. The EBA's target is to provide a 12-month implementation period from publication of the final draft ITS on the EBA's website to the day when the first disclosures will take place.
152. The new ITS will include the disclosures on these topics based on CRR 2, BRRD 2 and the Investment Firm Regulation (IFR). The EBA will review and amend as necessary the disclosures on credit risk once the credit risk standardised approach regulatory framework is revised following the implementation of Basel III. Similarly, once the Fundamental Review of the Trading Book is closed, the EBA will conduct an extensive review of the market risk disclosures included in the ITS in order to align them with the new framework.

*Table 5: Timetable of mandates related to disclosure*

Mandate	Product	Disclosure topic	Original Deadline	Proposed Deadline	1st disclosure date
Art. 434a of the CRR: draft ITS specifying uniform disclosure formats, and associated instructions in accordance with which the disclosures required under Titles II and III of Part Eight of CRR shall be made.	Draft ITS on institutions' public disclosures	Risk management objectives and policies	June 2020	June 2020	June 2021
		Scope of application			
		Own funds			
		Own funds requirements and risk-weighted exposure amounts			
		Counterparty credit risk			
		Countercyclical capital buffers			
		Credit risk and dilution risk			
		Encumbered and unencumbered assets			
		Use of standardised and IRB approaches (credit risk)			
		Market risk			
		Operational risk			
		Exposures to securitisation positions			
		Remuneration policy			
		Leverage ratio			
		Liquidity requirements (LCR and NSFR)			
Use of CRM techniques					
Indicators of global systemic importance	June 2020	Second half of 2020	June 2021		
ESG risks	June 2020	June 2021	June 2022		

		IRRBB	June 2020	Second half of 2020	June 2021
Art. 434a of the CRR: draft ITS specifying uniform disclosure formats, and associated instructions for the TLAC disclosure requirements	Draft ITS on TLAC/MREL disclosures and reporting	TLAC	June 2020	June 2020	Expected December 2020
Art. 45i(6) of the BRRD: draft ITS specifying uniform disclosure formats, frequency and associated instructions in accordance with which MREL disclosures shall be made		MREL	June 2020	June 2020	2024
Art. 49 on draft ITS to specify templates for disclosure of own funds	Draft ITS on investment firms disclosures	Investment firms – Own funds	Expected June 2021	December 2020	Expected - June 2021
Art. 52 on draft ITS to specify templates for disclosure of investment policy	Draft ITS on investment firms disclosures	Investment firms – Investment policy	Expected June 2021	December 2020	Expected - June 2021

## 6. Roadmap for the delivery of the EBA mandates on supervisory reporting

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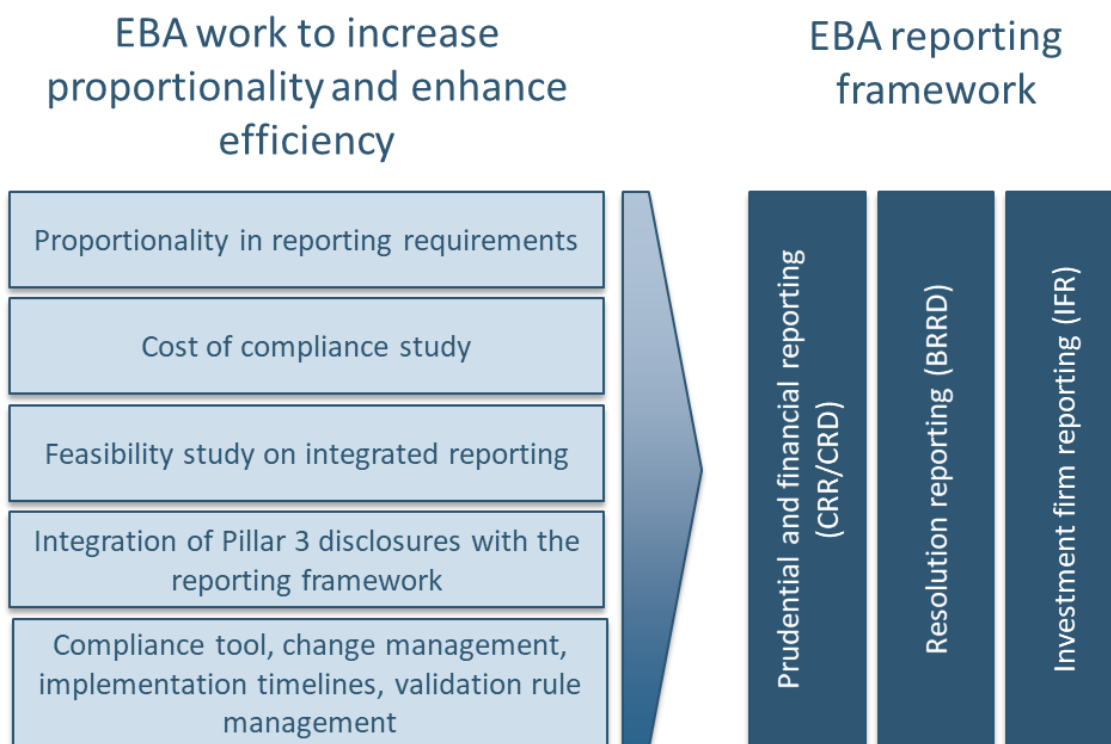
### 6.1 Introduction and background

153. The EBA has worked on harmonising and improving the reporting framework since its inception in 2011. The EBA reporting framework is uniform and directly applicable, ensuring a level playing field for institutions and comparability of data. The EBA reporting framework has evolved over the years since the first reporting framework was published in 2013. The EBA has reviewed the content to ensure its continued relevance, and it has also continued to develop the technical package and version management to facilitate implementation and support reporting processes.
154. The comprehensive reporting framework is of crucial importance to the day-to-day work of supervisors, as it allows a standardised analysis of the strengths and weaknesses of individual institutions. This analysis often forms the basis for more in-depth analyses performed through on-site visits. Furthermore, it provides an overview —at both national and EU levels — of systemic issues. Finally, it is of crucial importance as an analysis tool, for instance when it comes to introducing new regulation or understanding specific aspects of the EU banking system in more detail.
155. It is therefore clear that a strong and robust reporting framework is necessary. At the same time, while improvements in reporting have been significant and there is a clear need for the reporting framework, it is also clear that the framework has received its share of criticism, for instance for not being sufficiently proportionate. In the light of significant revisions, the EBA wishes to outline the overall principles behind the revisions to the framework.
156. While uniform and standardised EU-wide reporting requirements have been welcomed as beneficial by institutions, there has been criticism with regard to proportionality, in particular for small and non-complex institutions, the complexity of the requirements and definitions, and consistency within the wider context of financial reporting requirements. Institutions have also called for more coordination and data sharing by authorities to avoid overlapping additional data requests, which offset some of the benefits of the EU single reporting framework. The EBA intends to continue working on harmonisation, integration and coordination to meet these challenges.
157. This roadmap provides an overview of the EBA's work and strategy on supervisory reporting and how it intends to continue its work to improve the reporting framework to meet the challenges outlined above. First, the roadmap describes deliverables related to supervisory reporting that the EBA will work on based on the new banking regulatory package and the forthcoming regulation and directive for investment firms, as well as a timeline for their delivery. The EBA

maintains on its website reporting frameworks with all related documentation as well as information on short-term planning for framework releases. This roadmap sets out a longer term plan for reporting deliverables.

158. Second, the roadmap provides an overview of the EBA's work to increase the proportionality of the reporting framework and to maintain the efficiency of the framework and reduce costs for users. This work includes analyses and assessments of the costs and benefits of increasing standardisation, the development of tools to help with the implementation of reporting and a far-reaching feasibility study on a more integrated reporting approach that could further increase efficiency across institutions and public authorities.
159. The mandates for reporting frameworks covered in this roadmap require the development of the following:
  - a reporting framework based on CRR/CRR 2/CRD/CRD 5 (including the Backstop Regulation);
  - a reporting framework based on BRRD/BRRD 2;
  - a reporting framework for investment firms based on the IFR.
160. The EBA's work to increase the proportionality and enhance the efficiency of the reporting framework covered in this roadmap includes the following:
  - a review of proportionality in the reporting requirements;
  - a study on the cost of compliance with reporting requirements (CRR 2 mandate);
  - a feasibility study on integrated reporting (CRR 2 mandate);
  - the integration of Pillar 3 disclosure requirements into supervisory reporting;
  - development of a reporting compliance tool;
  - changes to the reporting framework and implementation timelines;
  - validation rule management.

Figure 1: Overview of the EBA's work on reporting



### General overview of EU supervisory reporting framework

161. The aim of the EU common supervisory reporting framework is to offer a single framework of requirements for the prudential, resolution and financial reporting expected of credit institutions and investment firms in the EU, thereby reducing the costs of reporting and fostering a level playing field across EU institutions. It provides the foundation for the full harmonisation of reporting on prudential requirements. The consistent application of the EU common supervisory reporting framework is ensured by providing templates with related instructions, a data point model and validation rules (as well as an XBRL taxonomy), supported by the Q&A mechanism.
162. Commission Implementing Regulation (EU) No 680/2014 (implementing technical standards (ITS) on supervisory reporting) and the other reporting standards<sup>34</sup> that form the EU common supervisory reporting framework need to be updated whenever the underlying regulatory requirements change. Amendments to the ITS are also necessary to improve competent authorities' ability to effectively monitor and assess institutions' risk profiles and obtain a view of the risks posed to the financial sector.

<sup>34</sup> ITS on supervisory benchmarking, ITS on resolution planning reporting and EBA guidelines on funding plans.

## EBA regulatory mandates on reporting

### New banking regulatory package

163. The legislation adopting the banking package amends rules on capital requirements to reinforce the capital and liquidity positions of banks under CRD 5 and CRR 2. It also strengthens the framework for the recovery and resolution of banks under the revised BRRD 2 and the Single Resolution Mechanism Regulation. The package includes numerous new mandates for the EBA, requiring it to produce regulatory technical standards (RTS), ITS, guidelines and reports.
164. CRR 2 includes a number of key measures, such as amendments regarding the leverage ratio, the new net stable funding requirement, a new market risk framework introduced in the form of a reporting requirement and a new total loss-absorbing capacity (TLAC) requirement. Besides these changes to the substance of the prudential framework, the reporting and disclosure requirements themselves have been subject to amendments. Moreover, BRRD 2 introduces a new requirement on the loss-absorbing and recapitalisation capacity of credit institutions and investment firms. It is therefore necessary to update the ITS on supervisory reporting to ensure the collection of information to reflect those new rules.
165. The package also aims to enhance proportionality, as the new rules are more growth-friendly and better able to be adapted to the size, risk and systemic importance of the banks. Proportionality is also reflected in the EBA's proposals for reporting requirements, as well as in the cost of compliance study on reporting and the feasibility study on integrated reporting that the EBA is mandated to submit to the European Commission by CRR 2.

### Regulation on minimum coverage of non-performing exposures

166. In addition to the changes stemming from the risk reduction package, the European Council published its conclusions on an action plan designed to tackle non-performing loans (NPLs) in Europe in July 2017. In its action plan, the European Council requests that the European Commission consider introducing prudential backstops to address potential under-provisioning of non-performing exposures (NPEs). The backstop would apply to newly originated exposures in the form of compulsory prudential deductions from institutions' own funds.
167. Following this request, Regulation (EU) 2019/30 of the European Parliament and of the Council amending Regulation (EU) No 575/2013 (the Backstop Regulation) was published in April 2019. It introduced a Pillar 1 measure that directly applies to all institutions subject to the CRR. In particular, the Backstop Regulation sets out uniform minimum levels of coverage to ensure that institutions have sufficient loss coverage for future NPEs. Consequently, the reporting framework will have to be expanded to cover this new element.

### Investment firms' regulatory package

168. Moreover, the IFR and the IFD completed the trilogue on 26 February 2019 and are expected to be published in the Official Journal by the end of 2019. The EBA mandates cover a broad range



of areas related to prudential treatment of investment firms, and one of them is to develop a completely new reporting framework for investment firms; in contrast to the situation today, investment firms — with the exception of the very largest investment firms — will be subject to a separate regime.

## 6.2 The EBA’s policy strategy on supervisory reporting

169. The uniform supervisory reporting framework brings significant benefits to all stakeholders, but the EBA is also cognisant of the need to maintain and enhance the efficiency of the reporting framework and that changes to reporting requirements entail costs for institutions. Therefore, the EBA has taken action and is reviewing the measures taken to design and maintain an efficient framework that balances costs and benefits.

170. The EBA’s key objectives in terms of its strategy for developing and reviewing its reporting framework are as follows:

- **Fit-for-purpose:** the information reported should reflect the underlying regulations and should enable supervisory and resolution authorities to fulfil their tasks and duties. Supervisory data are essential for effective supervision and thus they are vital for achieving the EBA’s objective of protecting the public interest by contributing to the short-, medium- and long-term stability and effectiveness of the financial system, for the EU’s economy, its citizens and its businesses. The reporting requirements should be tailored to cover the information that the authorities need to carry out their tasks.

Measures/actions taken: regular review of reporting requirements, in line with the development of the EU banking regulatory framework, with the aim of strengthening the quality and effectiveness of supervision.

- **Proportionality:** while reporting should capture all necessary information, it should also be proportionate to the nature, scale and level of risk of institutions’ activities. Proportionality should be considered not only in the reporting requirements but also in the wider context of reporting efficiencies to ensure that the reporting infrastructure is as user-friendly as possible and allows the use of technology to reduce costs.

Measures/actions taken: on the one hand, reporting requirements implicitly depend on regulatory approaches and institutions’ business models and activities (e.g. the use of internal models for credit risk; issuance of covered bonds or securitisations); on the other hand, template-specific materiality thresholds and risk-based criteria are provided to trigger certain reporting requirements, in order to take into account the nature, complexity and riskiness of institutions’ activities. The EBA will conduct a full review as part of its study on the cost of compliance with reporting requirements. The EBA is also continuing its work on facilitating implementation and compliance to reduce costs.

- **Data standardisation and consistency:** the EBA’s supervisory reporting is harmonised and in the vast majority of cases subject to ‘maximum harmonisation’. The framework is

directly applicable in the EU and the EBA provides detailed data definitions in the form of a standardised data dictionary for each reported item to ensure the uniform implementation of the reporting requirements. The concepts and definitions are consistent within the EU banking regulatory framework, within the EBA framework and among the different reporting requirements within the financial sector to ensure comparability of information.

Measures/actions taken: the development of the EBA's data point model and the common dictionary; the implementation of a consistent design across the whole framework; the promotion of the use of legal entity identifier codes in all supervisory reporting; efforts to foster consistency among and integration of all regulatory reporting requirements for institutions. The EBA reporting framework fully integrates prudential, financial and resolution reporting into one common dictionary. The integration of reporting and disclosures will increase consistency and facilitate the implementation of both sets of requirements.

### 6.2.1 Upcoming changes to the EBA reporting framework

171. The EBA issues new reporting requirements in framework releases, in an annual framework release or in releases by module to accommodate different development and application timelines, which often are defined by the underlying regulations.
172. The EBA completed framework release version 2.9 (phases 1 and 2) in August 2019 and is currently preparing release version 2.10, which will have a more limited impact, with a focus on funding plan reporting. The next major framework release will be version 3.0, into which changes and new reporting requirements resulting from CRR 2, CRD 5 and BRRD 2 will be incorporated. The EBA maintains on its website all versions of the reporting frameworks, including legal texts, reporting instructions and technical documentation, together with a calendar to help institutions with their planning and with implementing the requirements.
173. Some planned changes that go beyond version 3.0 are already identifiable, such as reporting by investment firms, changes resulting from the completion of Basel III and amendments to reporting by institutions using the internal-ratings based (IRB) approach stemming from the completion of the IRB roadmap and the final new market risk requirements.
174. The planned deliverables for version 3.0 of the EBA reporting framework are:
  - new ITS on supervisory reporting that will replace Commission Implementing Regulation (EU) No 680/2014 for consistency and legal certainty reasons;
  - new ITS on reporting on the new market risk requirements;
  - new ITS on minimum requirement for own funds and eligible liabilities (MREL)/TLAC reporting and disclosures;
  - amendments to the ITS on supervisory benchmarking.

## Prudential and financial reporting

### Reporting changes resulting from CRR 2 and the Backstop Regulation

#### Credit risk

175. The main changes to the credit risk framework will be closely related to changes in CRR 2 (infrastructure projects to support investment and revised provisions on exposures to collective investment undertakings) and adjustments to supervisory reporting to achieve consistency with the newly developed framework for IRB approach and standardised approach (SA) disclosures.
176. The IRB framework will be further adjusted in the following reporting framework release in order to implement the regulatory products from the EBA IRB roadmap.<sup>35</sup> The EBA is mindful that the implementation of Basel III will require more substantial changes to SA reporting, and, consequently, it envisages at the moment only changes to align reporting with disclosures.

#### Market risk

177. While the currently applicable market risk framework and the related existing reporting requirements will remain unchanged in the next reporting release, CRR 2 introduces the first elements of the Fundamental Review of the Trading Book (FRTB), initiated by the Basel Committee on Banking Supervision (BCBS), into the prudential framework of the EU. Despite not yet being binding in terms of own funds requirements, the framework is implemented by means of a reporting requirement, constituting the first step towards the full implementation of the FRTB framework in the EU.
178. The reporting requirements on the new market risk framework will be gradually expanded; the first step will be to introduce a thresholds template, providing insights into the size of institutions' trading books and the volume of their business subject to market risk, and a summary template, reflecting the own funds requirements under the alternative standardised approach (ASA). Later, this information will be complemented with details on the calculation of the own funds requirements under the ASA and by information on the own funds requirements under the alternative internal model approach.
179. The EBA is taking a gradual approach because it is mindful of the importance of expanding the reporting requirements resulting from the FRTB in a proportionate manner, as institutions will also continue to be subject to the current market risk framework and the associated reporting. Once clarity on the full implementation of the FRTB framework in the EU exists — including clarity on the implementation of the EBA roadmap on market risk and counterparty credit risk — the framework will be expanded to fully cover the new requirements.

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<sup>35</sup> See the EBA's progress report on the IRB roadmap:  
<https://eba.europa.eu/documents/10180/2551996/Progress+report+on+IRB+roadmap.pdf>

### Counterparty credit risk

180. CRR 2 revised the counterparty credit risk framework and introduced new approaches to calculating own funds requirements for counterparty credit risk. In supervisory reporting, counterparty credit risk has so far been captured only at a very high level in the credit risk templates. A set of new templates will be developed, as recommended in the EBA's advice to the European Commission on SA counterparty credit risk and own funds requirements for market risk (November 2016), to improve supervisors' ability to monitor and assess institutions' counterparty credit risk profiles and their compliance with the new requirements.

### Liquidity — net stable funding ratio

181. CRR 2 implemented the net stable funding ratio (NSFR) for institutions in the EU. The NSFR is aimed at ensuring that the required stable funding that is expected at different points in time is held in the form of adequate, available stable funding. An adequate supervisory review of the compliance of institutions with the NSFR minimum requirement necessitates proper NSFR reporting in accordance with the specifications set out in CRR 2. To achieve this, a set of new templates will be developed to replace the NSFR monitoring templates.
182. CRR 2 also envisages simplified requirements for small and non-complex institutions, which will be reflected in a set of simplified templates.

### Leverage ratio

183. CRR 2 has introduced the 3% leverage ratio requirement for institutions in the EU, as well as a global systemically important institution (G-SII) buffer requirement for G-SIIs. In addition, there are several changes to the definition of leverage ratio exposures from that used in the leverage ratio delegated act of October 2014. These changes mostly reflect the changes in the definition of the leverage ratio in the 2017 BCBS revised framework. Furthermore, there are a number of EU specificities, often leading to the exemption of certain exposures from the leverage ratio calculation.
184. The reporting requirements will be updated in line with the changes to the regulatory framework, to take into account the new SA for counterparty credit risk, to include the Pillar 2 requirements that address risks of excessive leverage and to reflect the G-SII buffer requirement, among other things. The amended leverage ratio reporting will also require large institutions to report averages of specific components of the leverage ratio calculation, to enable the authorities to monitor the volatility of the leverage ratio.

### Non-performing exposures: the Backstop Regulation

185. Following the Backstop Regulation, new reporting requirements will be introduced in both the Financial Reporting Framework (FINREP) and the Common Reporting Framework (COREP).
186. The COREP framework will include templates on NPE loss coverage that will allow supervisors to obtain information on the amount of NPEs subject to the Backstop Regulation and the amount

of deductions from Common Equity Tier 1 (CET1) capital, as well as to monitor the backstop calculation by time passed since an exposure's classification as non-performing.

187. The FINREP amendments will cover the stock of NPEs, by time passed since an exposure has been classified as non-performing, to allow supervisors to monitor institutions' NPE coverage strategies more effectively and capture their risk profiles more accurately. Furthermore, the definition of NPEs and forbearance will be removed from the FINREP instructions, given that they are now included in the CRR itself.

### Large exposures

188. Large exposure reporting will be reviewed to reflect amendments in CRR 2. These changes will include the calculation of large exposure limits based on CET1 capital rather than eligible capital and the removal of the requirement to report maturity buckets of an institution's 10 largest exposures on a consolidated basis to institutions and to shadow banking entities.
189. Further amendments to large exposure reporting may result from and take place after the regulatory mandates on large exposures have been delivered.

### Liquidity — additional liquidity monitoring metrics

190. CRR 2 mandates the EBA to identify which additional liquidity monitoring metrics (ALMM) will apply to small and non-complex institutions. The EBA will assess the best way to achieve this simplification in the context of the study on the cost of compliance with reporting requirements.

### Own funds

191. Amendments to the own funds module will result from changes in the CRR 2 own funds and the integration with the Pillar 3 framework.

### Other amendments

#### FINREP

192. Amendments to FINREP will be driven by accounting issues (e.g. the presentation of purchased and originated financial assets outside the impairment stages of International Financial Reporting Standard 9 (IFRS 9)); Q&As (e.g. the inclusion of cash balances and other demand deposits in loss allowance movements); and the need for integration with the Pillar 3 framework.

#### Asset encumbrance

193. Minor amendments to the asset encumbrance module will result from the integration with the Pillar 3 framework.

#### Losses from immovable property

194. Reporting on losses from immovable property (IP losses) will be amended with regard to the reporting frequency (from semi-annual to annual), as mandated by Article 430(a) of the amended CRR. A further review of the underlying methodology for reporting IP losses will be undertaken during 2020.

### Operational risk

195. Reporting on operational risk will not change as a result of CRR 2, and consequently no significant changes are expected. Furthermore, it would appear premature to make any changes, as the EU implementation of Basel III is likely to include the introduction of a completely new framework.

### Liquidity — liquidity coverage ratio

196. New reporting on the liquidity coverage ratio (LCR) will begin from April 2020, and no further major amendments are planned.

### Supervisory benchmarking

197. Supervisory benchmarking reporting is being reviewed on an annual basis, to implement any changes to the market risk and credit risk portfolios and to the reporting templates and instructions needed to keep the portfolios up to date and the reported data relevant for the EBA's supervisory benchmarking exercise.
198. The latest update reduced the portfolios to be reported on by 70-80%, thus reducing the reporting burden significantly. Furthermore, in line with the responses to the latest revision, limited changes are expected to the existing templates, in the form of consistency improvements and alignments with the existing framework. The intention, therefore, is to maintain stability in the current reporting framework.
199. At the same time, however, the EBA is scrutinising the effective implementation of IFRS 9 in the EU, and the quantitative monitoring involves work on the benchmarking of the modelling techniques used by EU institutions for IFRS 9 purposes.<sup>36</sup> The integration of selected IFRS 9 parameters into the ITS on supervisory benchmarking is expected to be implemented in two phases in 2020 and 2021.

### Funding plans

200. Funding plan reporting is currently undergoing a major revision, which will be completed in December 2019.

### Resolution reporting

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<sup>36</sup> See the EBA's roadmap for IFRS 9 deliverables:  
(<https://eba.europa.eu/documents/10180/2551996/Roadmap+for+IFRS+9+deliverables.pdf>)

## TLAC/MREL

201. The new banking package implements the Financial Stability Board's TLAC standard in the EU and complements the MREL that has been in force since 2014. TLAC — formally the 'G-SII requirement for own funds and eligible liabilities' — applies to G-SIIs only. The reporting and disclosure obligations on TLAC are already in force.
202. Even though MREL and TLAC have their origins in different Level 1 texts, they will be presented in the reporting and disclosure framework in an integrated manner, to emphasise the differences and commonalities of the two prudential concepts.
203. Unlike TLAC, MREL applies to the broader population of institutions (G-SIIs and non-G-SIIs). For G-SIIs, the MREL is composed of the TLAC requirement and an MREL add-on. MREL and TLAC are based on the same core of own funds and eligible liabilities, with limited elements specific to each requirement: a deduction regime for TLAC; restrictions on the admissibility of senior debt to TLAC; and a broader eligibility of structured notes for MREL.
204. The new templates will provide information on the amount and composition of institutions' loss-absorbing capacity; facilitate comparisons between the prudential ratios and the requirements determined on the basis of, among other things, the resolution planning framework; and include information on the ranking of own funds and eligible liabilities in insolvency proceedings, as well as contract-by-contract information that will provide insights, for example, into the relevance of third countries' laws in the event of resolution.
205. In line with the co-legislators' specifications, the EU's harmonised disclosure and reporting requirements will apply only to entities and groups that would be resolved in the event of severe financial or other difficulties, rather than being subjected to the conventional insolvency proceedings and being liquidated. The information to be provided depends on the type of entity — whether the entity or group in question is a resolution entity or group or another entity — and, in the case of disclosure on TLAC, also on the size of the entity or group in question.

## Resolution planning reporting

206. The updated ITS on resolution reporting was published in 2018 and no major revisions are currently planned. Minor revisions may take place to rectify errors and reflect the guidance provided by Q&As.

## Reporting by investment firms

207. Investment firms have been subject to the same requirements that the CRR and the CRD set out for credit institutions. However, because of their specificities, a specific framework was developed. The new framework is being finalised to take into account the prudential requirements set out in the IFR and the prudential supervision described in the IFD.

- 208. The IFD and the IFR provide specific and more proportionate requirements for investment firms, taking into account their size, nature and complexity. The largest firms will be subject to the full banking prudential regime and will be supervised as credit institutions.
- 209. The new framework sets out reporting and disclosure requirements that will be designed in accordance with the standard formats and definitions to ensure consistency in the requirements of Pillar 3 and supervisory reporting.
- 210. The IFR mandates the EBA to submit the ITS on reporting and the ITS on disclosures 12 months and 18 months, respectively, after the entry into force of the IFR. The EBA plans to provide the Consultation Paper in 1H 2020 and submit the final ITS in 2H 2020.

### **6.2.2 The EBA's work to increase the proportionality and enhance the efficiency of the reporting framework**

- 211. Increasing the proportionality of the reporting framework is one of the EBA's key objectives for reporting, and this issue is also highlighted in the new banking regulatory package. The EBA's view is that proportionality should be considered not only in the design of the reporting requirements but also in the wider context of reporting efficiencies to ensure that the reporting infrastructure is as user-friendly as possible and allows the use of technology to reduce costs.
- 212. The EBA is working on delivering a more proportionate reporting framework. This includes not only a review of the current reporting framework but also analyses and assessments of the costs and benefits of increasing standardisation, the development of tools to help with the implementation of reporting and a more far-reaching feasibility study on a more integrated reporting approach.

#### **Proportionality in reporting requirements**

- 213. Proportionality has been implemented in the supervisory reporting framework with the aim of striking a balance between reducing the costs of reporting (implementation and ongoing costs) for institutions and ensuring the quality and effectiveness of supervision. This is achieved using various approaches.
- 214. Many elements of proportionality in supervisory reporting are implicit, as they are driven by the regulatory regime, or by the prudential approach or the business model of the institution. For example, the scope of the data to be submitted depends on factors such as if an institution is subject to resolution, if internal models are used to calculate own funds requirements and if an institution has issued covered bonds or securitisations.
- 215. The supervisory reporting framework also incorporates different, tailored reporting frequencies and includes defined size- and risk-specific criteria and thresholds to trigger certain reporting requirements (e.g. on sovereign exposures, large exposures, geographical breakdowns, details of NPEs), to take into account the nature, complexity and riskiness of institutions' activities.



216. CRR 2 introduced definitions of ‘small and less complex institutions’ and ‘large institutions’ for greater proportionality. The EBA will review all the criteria and thresholds on size and complexity and streamline them, referring to the CRR definitions for small and large institutions where suitable. These CRR size categories will be used across the reporting framework, for example to exempt small institutions from some reporting requirements or to trigger additional reporting requirements for large institutions.
217. In the current framework, when a simplistic measure of count of reported data points is used, on average large institutions report up to 10 times more data points than small institutions. Notwithstanding, the EBA considers it worthwhile to increase proportionality, and it would also be in line with the new concepts introduced by CRR 2. Further input on how greater proportionality can be achieved is expected from the report on costs and benefits of compliance with reporting requirements that the EBA has been mandated to submit to the European Commission by CRR 2.

#### **EBA report on the costs and benefits of reporting requirements**

218. As part of its overall work on introducing greater proportionality into the regulatory and supervisory frameworks, and reducing the costs of compliance for institutions, the EBA has been mandated to assess the costs and benefits of compliance with common supervisory reporting and to suggest ways to reduce reporting costs by 10-20%, at least for small and non-complex institutions.
219. The study offers an opportunity to verify the assumptions behind and check the effectiveness of the proportionality elements in the ITS, as well as to revisit and revise them, if needed. In addition, it may provide insights into the cost drivers, which may serve as a basis for improving the reporting requirements — that is, making them less costly for institutions.
220. The study will follow closely the requirements of the CRR mandate (Article 430(8)) and will involve two stages: (1) the classification of credit institutions into categories based on their size, complexity and the nature and level of their activities; and (2) an evidence-based analysis of the reporting costs and their proportionality and benefits for the purposes of prudential supervision, assessing the effects of reducing reporting requirements on the effectiveness of prudential supervision and making recommendations on how to reduce reporting requirements.
221. The results of the study and related policy recommendations are expected to be delivered to the European Commission and published by the end of 2020.

#### **EBA feasibility report on integrated reporting**

222. Since the financial crisis, new reporting requirements have been recognised as key for supervisory, financial stability and statistical purposes. The development of these reporting needs has sometimes led to some overlaps. In addition, ad hoc requests and national

- requirements have offset some of the benefits of a single set of harmonised reporting requirements across the EU (Commission call for evidence report, 2017<sup>37</sup>).
223. EU legislators have considered concerns about the reporting burden and the need to improve the efficiency of reporting and have included in the CRR 2 a mandate to the EBA to prepare a feasibility report for the development of a consistent and integrated system for collecting statistical, resolution and prudential data and report its findings to the Commission (Article 430(c)).
224. The current EU reporting ecosystem consists of many different actors (reporting entities and authorities) and reporting frameworks (supervision, statistics, etc.), including the different national, European and international requirements.
225. Following the mandate, the EBA will involve competent authorities, as well as authorities in charge of deposit guarantee schemes, resolution authorities and in particular the European System of Central Banks (ESCB), in the feasibility study. The feasibility report should also take into account the work that the ESCB has already carried out regarding the integration of data collections. Close interaction with other stakeholders is also important and will take place through bilateral meetings, workshops and consultations from the fact-finding, scoping phase to the final report.
226. The report will consider feasibility in the short and long term, or different integration options, and will be based on a cost and benefit analysis, taking several issues into consideration; the quantity and scope of the current data collected; the use of a common data dictionary; the establishment of a joint committee; and the feasibility and possible design of a central data collection point.
227. For the feasibility study, the EBA will build on the objectives of an integrated system, which include (1) increasing the efficiency of reporting by standardising reporting, reducing redundancies and using common definitions; (2) increasing efficiencies for financial entities; (3) facilitating the exchange of data and its usability; and (4) improving data quality. Therefore, to achieve these objectives, understanding the cost drivers of institutions' reporting processes and how to improve the usability of data for the public sector are key.
228. In addition, the data ecosystem that may result from the feasibility report should be future-proof, that is, not only relevant under the current circumstances but also relevant and applicable in the future, even with changes in the reporting environment. As part of this assessment, the EBA will also consider and analyse a possible shift from the current approach, focused mainly on aggregated data, towards more granular reporting.

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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS, Follow up to the Call for Evidence - EU regulatory framework for financial services, 1.12.2017, [https://ec.europa.eu/info/files/171201-report-call-for-evidence\\_en](https://ec.europa.eu/info/files/171201-report-call-for-evidence_en)

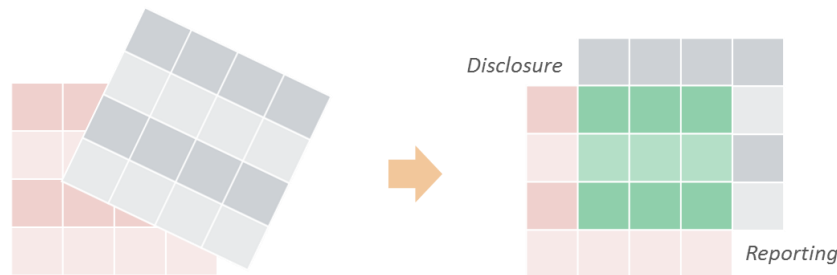
229. With these objectives in mind, integrated reporting will be considered from different angles as part of the feasibility study:
- **organisational:** common governance, common data collection, common monitoring of data quality;
  - **methodological:** a common dictionary, common definitions, common transformation and calculation rules;
  - **legal:** the level of harmonisation, reporting requirements, access rights/sharing of information;
  - **technological:** common data processes, a central collection point, a shared platform.
230. The preparation of the report for the Commission has been divided into two separate phases: (1) fact-finding and research, aimed at scoping the report and investigating currently existing initiatives on the integration of reporting; and (2) a detailed analysis and assessment of the options identified during the first phase. The results from phase 1 of the report are expected to be ready by H1 2020, and phase 2 of the report will be presented for consultation by H1 2021.
231. The EBA will interact closely with stakeholders during both phases of the report preparation. As part of the fact-finding (phase 1), the EBA has already started to engage with competent authorities and other stakeholders to gather information on the data currently collected, the reporting process, dictionaries and technologies.

### Integration of Pillar 3 disclosure requirements into supervisory reporting

232. The commonalities of the information that institutions have to report to their supervisors and the regulatory information that they have to make public in the interest of investors and external stakeholders drove the EBA Board of Supervisors' strategic decision that consistency and integration between the Pillar 3 disclosure and supervisory reporting frameworks should be targeted to the extent possible. To ensure consistency, the integration of supervisory reporting and disclosures will be carried out throughout the whole review of reporting and disclosure requirements.
233. The information included in the reporting framework is the basis on which supervisors and resolution authorities form a clear picture of the situation of an institution in terms of business model/profitability, solvency/risk profile, liquidity, relevance for the financial system and resolvability. Similarly, the information disclosed by institutions is the basis on which market participants understand and assess institutions' situations in order to exercise market discipline. Information relevant for market participants is also relevant to help supervisors with their tasks, hence the importance of striving for congruency.
234. Increasing consistency between reporting and disclosure requirements, including a standardisation of formats and definitions, should also facilitate institutions' compliance with

both requirements, as they will be able to use the same data to fulfil their reporting and disclosure obligations. Furthermore, the integration of disclosure requirements with supervisory reporting will improve the quality of the information disclosed, since it will be subject to supplementary scrutiny by supervisors, thus enabling all market participants to take more informed decisions.

Figure 2: Integration of disclosure requirements with supervisory reporting



### Reporting compliance tool

235. The EBA plans to develop a tool, in particular for small and less complex institutions, to support institutions' compliance with the reporting requirements by helping them to understand which templates are applicable based on various criteria (e.g. the regulatory regime, the prudential approach, the group structure, small/large institution, risk/exposure thresholds and entry/exit criteria). The tool will provide only indicative guidance on which parts of the reporting framework are applicable to an institution and will have no binding force in law. The development is planned to take place in 2020.

### Changes to the reporting framework and implementation timelines

236. The EBA is conscious that both the implementation of the new reporting requirements and the changes to reporting requirements implemented earlier involve costs for institutions as well as authorities. Therefore, it aims to achieve stability in each reporting module by clustering change needs. The EBA reporting framework is reviewed on an annual basis, module by module, to assess change needs and define a timeline for implementing those changes. Reporting changes are stemming from changes in the underlying regulations or changing supervisory needs, but smaller technical amendments are also needed, for example to implement Q&As and rectify clerical errors.
237. Against this backdrop, the EBA communicates its plans for framework releases by establishing a tentative, forward-looking calendar of annual changes to the reporting framework, which was published for the first time for versions 2.9 and 2.10 of the reporting framework. The EBA's website provides complete reporting frameworks, including legal texts, templates, instructions and technical documentation for each framework release. The EBA also maintains a technical framework in which all versions can be tracked and built up into an integrated, version-managed system.

238. The EBA considers it important that institutions and authorities alike have enough time to implement new reporting requirements. The EBA's target continues to be to provide a 12-month implementation period from publication of the final draft ITS on the EBA's website to the day when the first reporting will take place. In some cases, this has not been possible in the past, and it may not always be in the future, owing to the timelines of changes in the underlying regulations or the cycle of annual exercises (supervisory benchmarking). CRR 2 introduces a minimum implementation period of 6 months after the publication of the relevant technical standard in the Official Journal, which the EBA will respect and reflect in its planning.

### Validation rule management

239. The EBA has started work to improve management of validation rules. The EBA is running a long-term project to overhaul the management of validation rules; however, it aims to launch measures in the medium term to allow swifter corrective action in case of erroneous validation rules. The EBA expects these measures to reduce resource needs and the need for manual interventions for institutions and supervisory authorities alike.

## 6.3 Expected timeline for deliverables

Table 6: Timetable of mandates related to supervisory reporting

Mandate	Reporting topic	Original Deadline	Proposed Deadline	Expected 1st reference date
Art. 430 (7) CRR: EBA shall develop draft implementing technical standards to specify the uniform reporting formats and templates, the instructions and methodology on how to use those templates, the frequency and dates of reporting, the definitions and the IT solutions for the reporting referred to in paragraphs 1 to 4.	Art. 430 (1) (a) CRR <b>Own funds</b>	June 2021	June 2020	June 2021
	Art. 430 (1) (a) CRR <b>Credit risk</b>			
	Art. 430 (1) (a) CRR <b>Counterparty credit risk</b>			
	Art. 430 (1) (c) CRR <b>Large exposures</b>			
	Art. 430 (1) (d) CRR <b>NSFR</b>			
	Art. 430 (1) (e) CRR <b>IP losses</b>			
	Art. 430 (1) (g) CRR <b>Asset encumbrance</b>			
	Art. 47(a-c) CRR <b>NPE backstop</b>			

	Art. 430 (1) (a) CRR <b>Leverage ratio</b>	June 2020	June 2020	
	Art. 430(2) CRR <b>Leverage ratio</b>			
Art. 430 (9) CRR: EBA shall develop draft implementing technical standards to specify the formats and templates that institutions referred to in the first subparagraph shall use for the purposes set out therein.	Art. 430 (3, 4, 9) CRR <b>FINREP</b>	June 2021	June 2020	
Art. 430 (7) CRR: EBA shall develop draft implementing technical standards to specify the uniform reporting formats and templates, the instructions and methodology on how to use those templates, the frequency and dates of reporting, the definitions and the IT solutions for the reporting referred to in paragraphs 1 to 4.	Art. 430 (1) (b) CRR <b>TLAC</b>	June 2020	June 2020	June 2021
Art.45(i) (5): EBA shall develop draft implementing technical standards to specify uniform reporting templates, instructions and methodology on how to use the templates, frequency and dates of reporting, definitions and IT solutions for the supervisory reporting referred to in paragraphs 1 and 2.	Art. 45(i) BRRD <b>MREL</b>			
Art.430 (b) (6): EBA shall develop draft implementing technical standards, to specify the uniform reporting templates, the instructions and methodology on how to use the templates, the frequency and dates of reporting, the definitions and the IT solutions for the reporting referred to in this Article	Art. 430(b) <b>Market risk (FRTB)</b>	June 2020	April 2020	March 2021

Art. 78 (8) CRD: EBA shall develop draft implementing technical standards to specify:  (a) the template, the definitions and the IT-solutions to be applied in the Union for the reporting referred to in paragraph 2;  (b) the benchmark portfolio or portfolios referred to in paragraph 1.	<b>Art. 78 CRD Supervisory benchmarking</b>	-	2020-2021	2020-2022
Art.54(3) IFR: For the purposes of the reporting requirements laid down in this Article, EBA, in consultation with ESMA, shall develop draft implementing technical standards	<b>Investment firms</b>	Expected December 2020	December 2020	Tentative: September 2021
Art. 430(8) CRR: EBA shall assess the costs and benefits of the reporting requirements laid down in Commission Implementing Regulation (EU) No 680/201437 in accordance with this paragraph and report its findings to the Commission by 28 June 2020. That assessment shall be carried out in particular in relation to small and non-complex institutions.	<b>Art. 430(8) CRR Cost of compliance</b>	June 2020	December 2020	-
Art 430(c) CRR: EBA shall prepare a report on feasibility regarding the development of a consistent and integrated system for collecting statistical data, resolution data and prudential data and report its findings to the Commission by 28 June 2020	<b>Art. 430(c) CRR Integrated reporting</b>	June 2020	June 2021	-
Art. 415 (3) (a)CRR: EBA shall develop draft implementing technical standards to specify which additional liquidity monitoring metrics as referred to in paragraph 3 shall apply to small and non-complex institutions.	<b>Art. 415 (3) (a) CRR ALMM</b>	June 2020	2021	2022



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