



EUROPEAN SUPERVISORY EXAMINATION PROGRAMME FOR 2024

EBA/REP/2023/35 19 OCTOBER 2023



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Abbreviations

CA	Competent Authority
CRD	Capital Requirements Directive
CSRBB	Credit spread risk in the banking book
DORA	Digital Operational Resilience Act
EBA	European Banking Authority
EEA	European Economic Area
ESEP	European Supervisory Examination Programme
ESG	Environmental, Social and Governance
EU	European Union
EVE	Economic value of equity
ICT	Information and communication technology
IRR	Interest rate risk
IRRBB	Interest rate risk in the banking book
LCR	Liquidity coverage ratio
MiCAR	Markets in Crypto-assets Regulation
ML/TF	Money laundering/terrorist financing
MREL	Minimum requirement for own funds and eligible liabilities
NII	Net interest income
NSFR	Net stable funding ratio
ORC	Overall recovery capacity
RTS	Regulatory Technical Standards
SOT	Supervisory outlier tests
SREP	Supervisory Review and Evaluation Process
TLTRO	Targeted longer-term refinancing operations
USSP	Union Strategic Supervisory Priorities

Executive Summary

1. To fulfil its mandate in driving convergence in supervisory practices across the EU, the EBA sets key topics for heightened supervisory attention annually in its ESEP. It is expected that CAs reflect these topics in their priority setting as well as implement them in their day-to-day supervisory activities to ensure that concerted efforts of supervisors lead to the appropriate identification, assessment and management of the respective risks across the EU.
2. This document puts forward a handful of key topics for 2024 which reflect on current challenges and provides clear priorities for supervisors on topics that require EU traction, based on the request of the Board of Supervisors. The 2024 ESEP **complements CAs' core prudential supervisory activities and does not** aim to provide an overarching and comprehensive supervisory examination programme, as that should be developed by CAs taking into account the ESEP, the structure and specific vulnerabilities of the banking system under their remit and the idiosyncratic dimensions of the individual bank or banking group they supervise, including cross-border considerations, where relevant.
3. Accordingly, the dedicated focus areas in the 2024 programme are 1) liquidity and funding risk; 2) interest rate risks and hedging; and 3) recovery operationalisation. Some aspects of these topics have already been included in the 2023 ESEP, though they all gained prominence in the current operating environment. The specific attention to these areas in 2024 will contribute to ensuring the financial resilience of EU institutions, and through the implementation of the related policy products, will ultimately lead to a higher level of supervisory convergence across the EU.
4. The EBA also identifies up to two priorities of Union-wide relevance (USSP) with a forward-looking view on developments and trends, which also influence the selection of the operational focus areas as set out by this document.
5. The two USSPs selected for the 2023-2025 period are 1) *Monitoring and addressing financial stability and sustainability in a context of increased interest rates*; and 2) *Developing an oversight and supervisory capacity for DORA and MiCAR*. The first priority lies with the need to monitor the impact of increased interest rates on the EU banking sector, using all regulatory and supervisory tools available such as the Supervisory Review and Evaluation Process (SREP) or the IRRBB framework. The dedicated attention to the enhanced IRRBB supervision forms a key part of the 2024 ESEP, due to its criticality and timeliness¹.

¹ The second priority is not reflected as such in the 2024 ESEP, as many of the regulatory aspects are currently being developed. CAs participate in the various forums working on the setting up of the new supervisory functions for DORA and MiCAR, which help them to gradually adapt their resources and increase their efforts to strengthen supervisory capacity for these functions in 2024 and beyond.

1. About the ESEP

What is the ESEP

6. The ESEP forms part of the EBA's supervisory convergence toolkit which aims to deliver the EBA's supervisory convergence mandate as required by the EBA's founding regulation² and by Article 107 of the CRD, specifically in the context of the supervisory review.

The ESEP is a selection of key topics for heightened prudential supervisory attention in order to
1) provide supervisors with a single set of priorities that should be implemented across Europe; and
2) drive convergence in the related supervisory work.

7. The implementation of the ESEP in CAs' supervisory priorities and in their on- and off-site supervisory work will ensure that these key areas receive the dedicated attention across the EU which is warranted based on their importance in the current environment.

Identification of the key topics for 2024

8. The selection of the ESEP key topics relies on 1) the EBA's risk analysis work on the EU banking sector; 2) the EBA's policy work aiming to further enhance the convergence of supervisory practices, in particular in the context of the SREP; and 3) the practical experiences of CAs that help to ensure that the most pressing items are selected for close supervisory scrutiny.
9. When the Board of Supervisors approved the 2023 ESEP, it stressed the need to move towards a **more targeted approach** in setting the annual topics. Accordingly a handful of key topics for 2024 were identified, targeting **aspects that are considered 'specific' for the upcoming year compared to the 'business as usual'**. It is equally important that the key topics also reflect significant regulatory developments and facilitate their implementation in line with the EBA's convergence mandates.
10. For 2023, the driving forces of the priority setting were the legacy of the COVID-19 pandemic and the Russian aggression against Ukraine and the geopolitical consequences entailed, including related inflationary pressure. Based on these considerations, the four key topics identified for 2023 were 1) Macroeconomic and geopolitical risks; 2) Operational and financial resilience; 3) Transition risks; and 4) Money laundering and terrorist financing (ML/TF) risks in SREP and internal controls/governance.

² [EBA founding regulation](#)

11. For 2024, the supervisory areas which require consistent focus in the EU and the implementation of respective policy requirements are asset and liability management, with special attention on 1) liquidity and funding risk; 2) interest rate risk; and 3) recovery operationalisation. Structural changes support the selection of these themes, in particular i) the end of the abundant liquidity in the system due to the phasing out of the TLTRO-3 which impacts bank's funding plans/structure and require the active management of the transition; ii) the increased interest rate environment which influence the liquidity and funding sources of banks as well as depositors' behaviour and the implementation of the IRRBB package in the EU; iii) recent bank failures in the US and the case of Credit Suisse (CS), which increased the generic importance of adequate asset-liability management and crisis preparedness; iv) energy and food markets volatility, maintaining inflationary pressures and weighing on economic and lending growth.

The implementation of the ESEP 2024 and its follow-up

12. The topics in the 2024 ESEP are listed according to their importance and relevance for the 2024 prudential supervisory work. The EBA will acknowledge quickly changing economic and market conditions, and developments in local markets that may warrant the (re)prioritisation of supervisory tasks.

13. The EBA will use the most appropriate convergence tools at its disposal to conduct the assessment. Apart from the usual questionnaire and desk-based review, the EBA may embrace additional tool(s) in the follow-up, as applicable, for example, bilateral visit to CAs or peer reviews, which would allow for a more granular and/or dedicated assessment of the consistency of the supervisory reviews and measures as per Article 107 of the CRD. The EBA will also monitor the level of implementation in the work of colleges. The observations collected will feed into the overall conclusions on the degree of convergence of supervisory practices.

2. Key topics for supervisory attention for 2024

1. Liquidity and funding risk

14. As of now, EU/EEA banks' liquidity positions are broadly adequate on average and are supported by ample liquidity (and capital) buffers. However, there are potential challenges ahead and banks need to address them as they might negatively affect liquidity and funding. Amid the recent bank failures in the US and CS induced events, financial markets faced major volatility. The long-term trend of a rising deposit base has stopped. The cost of market funding (yields) increased amid rising interest rates. Liquidity for European banks is additionally challenged amid ongoing TLTRO repayments, with challenges for some banks to replace TLTRO funding. These risks might not be equally relevant for all banks and might be more pronounced for selected ones. Furthermore, the recent bank failures in the US and Switzerland showed how vulnerable banks are to news that can spread quickly and result in liquidity challenges.

15. Banks need to manage liquidity and market-based funding proactively amid rising costs and should ensure reasonable liquidity buffers, which should go beyond regulatory requirements, if needed. Funding should be managed cautiously, using windows of opportunity for debt placements. Keeping a diverse funding mix has become even more important now than in the past. Banks also need to manage their deposits carefully.

16. Banks also need to have processes in place to communicate very swiftly and with transparency to their stakeholders to address potentially or partially wrong information which is spreading quickly and leading to rapid deposit withdrawals or closure of funding markets. The role of social media in the recent bank runs must be understood and reflected in banks' communication policies, including measures and strategies to quickly address (near) fake news. It is expected that firms have metrics in place specifically focused on measuring social media sentiment and targeted actions to address any negative impacts. This should also be reflected within the banks' stress-testing frameworks and consideration given to scenarios driven by negative social media sentiment. This should then link to analysis in the recovery plan and contingency funding plan.

17. Consequently, dedicated supervisory efforts are needed from competent authorities to further assess the resilience of the system.

18. Supervisors should:

- **Assess institutions' short- and medium-term liquidity risk, including intraday periods, to ensure that they maintain adequate levels of liquidity buffers, under both normal and stressed conditions. This assessment should also include the evaluation of the counterbalancing capacity, the outcome of supervisory liquidity stress testing and early warning liquidity risk monitoring.**

- **Review the appropriateness of the institution’s funding profile, including both medium- and long-term contractual and behavioural mismatches, in relation to its business model, strategy and risk appetite. The review should look at the updated funding plans, and any related management actions in that context, with a focus on the diversification of funding sources and possible threats to market access. In this context, the costs of funding and ‘deposit flight’ risk/herding behaviour will require further attention.**
- **Assess the risks arising from wholesale/retail counterparties for on-balance sheet items and funding concentrations. In this context, the composition of covered and uncovered deposits, the relevance of contingent cash flows/off-balance-sheet items (for example credit lines and margin calls) as well as the concentration of depositors in interrelated segments or economic activities should also be considered when assessing potential sources of vulnerabilities.**
- **Assess and potentially challenge the institutions’ internal liquidity adequacy assessment process, with a particular focus on assumptions about the stability of deposit funding in the digital era and on the institutions’ ability to monetise its liquid assets in a timely fashion.**
- **Assess on an institution-by-institution basis if the practical impediment to sell securities accounted at amortised cost exists, for example if the institution doesn’t engage actively in repo markets³ in normal times or cannot in other ways demonstrate that it is able to liquidate those securities⁴. It is evident, that the extent of the unrealised losses should also be taken into account when conducting this assessment. This assessment could ultimately lead to the supervisory conclusion that the general operational requirements for assets being eligible as liquid assets are not met.**

Relevant regulatory products for Topic 1 – Liquidity and funding risk

The EBA published two reports⁵ monitoring the implementation of the LCR in the EU. These reports provide guidance on specific aspects of the LCR regulation for clarification to banks and supervisors about, inter alia, operational deposits, interdependent inflows and outflows, fiduciary deposits, retail deposits excluded from outflows, optionality and contingent inflows or the time dimension of the LCR. In June 2023, the EBA also published a third report⁶ assessing the potential impact on LCR and NSFR levels of the upcoming central bank funding repayment (TLTRO), and a potential scenario of higher liquidity risk, particularly affecting government bonds, derivatives and repo markets, in the context of a higher interest rate environment, inflation and recession risks. The EBA has also recently revised its implementing technical

³ For this assessment banks need to provide supervisors with evidence of access.

⁴ This approach is clarified in the EBA [Q&A 2018 3955](#), which seeks to avoid any overestimation of liquid assets and clarifies that the LCR eligibility of those securities is not jeopardised if the bank can demonstrate that it has access to liquidate those securities without those losses arising, for example by showing active participation in the repo market.

⁵ The [first report](#) was published in July 2019 and the [second](#) in March 2021.

⁶ The [third monitoring report](#) was published in June 2023.

standards on supervisory reporting on liquidity, that came into effect at the end of June 2023 to provide better and more suitable data for CAs' assessment of liquidity risk.

2. Interest rate risk and hedging

19. The structural change from continued ultra-low, or even negative, interest rate environment to increased interest rates paired with persistent inflation impacts banks' balance sheets and their investment portfolios especially those with a longer duration. Interest rates tend to stay on a rising trend for now. For this reason adequate asset and liability management is essential.

20. While net interest margins have increased for the time being, this environment of higher and rising rates might pose particular challenges for banks. Supervisors must ensure that banks have efficient and effective interest rate risk management, and interest rate hedging in place, including related risk management capabilities and systems. IRRBB management should adequately reflect the impact of substantially higher rates with the potential for further rises and help banks to test different scenarios of increases in interest rates.

21. Having said that, dedicated supervisory efforts are needed from competent authorities to further assess the resilience of the system.

22. Supervisors should:

- **Assess whether the institution has an appropriate organisational framework and clearly assigned responsibilities for IRRBB management, including the management body's responsibility in setting the IRRBB strategy and appetite and whether the senior management properly implements those.**
- **Understand the main features of the institution's assets and liabilities as well as off-balance-sheet exposures, in particular the loan and bond portfolio (e.g. volume of fixed vs variable rate loans etc., the volume of held-to-maturity portfolio and sensitivity to IRR changes, including concentrations); as well as deposit accounts (e.g. sensitivity of the institution's deposit base to changes in interest rates including core deposits, possible concentrations) and derivatives (e.g. derivatives for hedging purposes, impact of derivatives on the duration of non-trading book positions).**
- **Form a clear view on how changes in interest rates can have an adverse impact on an institution's NII and EVE to understand the possible threat to capital adequacy.**
- **Assess the inherent level of IRRBB, considering the nature and composition of the institution's interest rate risk profile, the outcome of the supervisory outlier tests and supervisory stress tests, as well as the interest rate stress scenarios performed by the institution.**
- **Assess and challenge, where relevant, the modelling assumptions of banks, in particular in the context of customers' behaviour (and taking into account the composition of banks' deposit/funding base).**

- **Assess and challenge banks' hedging approaches and policies, understand their concepts⁷, underlying assumptions, valuation models and their concrete implementation (including in banks' ICT systems) as well as if and how they are backtested.**

23. Supervisors are encouraged to consider the interlinkages between liquidity and funding risk management and IRRBB, including modelling and governance, reflecting the cross-cutting nature of these topics. Such an example could be interlinkages between banks' strategic forecasting of deposits and their IRRBB modelling estimates.

Relevant regulatory products for Topic 2 – Interest rate risk and hedging

The EBA published three regulatory products in October 2022, that provide a comprehensive regulatory background for CAs in their supervision of IRRBB **and** which complete the onboarding into EU law of the Basel standards on IRRBB.

The *Guidelines on IRRBB and CSRBB*⁸ have replaced the previous Guidelines under the SREP published in 2018 and are of crucial importance given the current interest rate environment. These Guidelines will apply from 30 June 2023⁹. The *final draft RTS on the IRRBB standardised approach*¹⁰ specify the criteria to evaluate the risks arising from potential changes in interest rates and the *final draft RTS on IRRBB SOT*¹¹ specify the modelling and parametric assumptions and the supervisory shock scenarios. In April 2023, the EBA published an *Opinion*¹² in response to the EU Commission's proposed amendments to the draft RTS on the SOT. In the Opinion the EBA suggests a recalibration of the quantitative threshold of the large decline considering the changes in the interest rate environment. The EBA current scrutiny plans on IRRBB encompass the monitoring of the appropriateness of such a threshold and proposing further adjustments as required when market conditions change.

3. Recovery operationalisation

24. The events that took place during 2023 in financial markets further highlighted the importance of 1) crisis preparedness to cope with potentially fast-moving and idiosyncratic shocks; as well as 2) the activation and implementation of recovery plans to ensure that institutions actually have options to proactively restore their financial soundness in a timely manner. Against this backdrop, **recovery plans need to be updated and contain credible and feasible recovery options** that could be implemented by institutions to promptly overcome potential crisis

⁷ such as hedging of open position through derivatives or other instruments, usage of replicating portfolios, structural hedges, etc.

⁸ [Guidelines on IRRBB and CSRBB](#)

⁹ except for the part on CSRBB, which will apply from 31 December 2023.

¹⁰ [Final draft RTS on the IRRBB SA](#)

¹¹ [Final draft RTS on SOTs](#)

¹² [Opinion on regulatory technical standards on supervisory outlier tests](#)

scenarios as well as satisfactory ORC. In particular, recovery plans need to consider newly emerging risks such as those that have materialised in recent quarters.

25. Supervisors should:

- **Assess the adequacy and severity of scenarios in the recovery plan, also in light of the guidance provided by the EBA Guidelines on the ORC in recovery planning¹³.** Only an appropriate level of severity would in fact ensure the implementation of the full set of available recovery options allowing the institution to truly demonstrate its full capacity to restore its business and financial viability.
- **Ensure the appropriateness of the calibration of recovery plan indicators in line with the EBA Guidelines on this topic, in terms of their ability to enable the timely activation of the recovery options as the activation at an early stage of the recovery options may be one of the crucial factors to ensure a smoother recovery in crisis cases.**
- **Review the adequacy and quality of the ORC determination, with an enhanced focus on liquidity recovery capacity.** ORC is a key outcome of recovery planning providing an indication of the overall capability of the institution to restore its financial position following a significant deterioration of its financial situation. **Its determination by institutions and review by CAs is crucial to assess the extent to which supervised entities would be able to overcome a range of potential crisis situations through the implementation of suitable recovery options.** In light of the market turmoil experienced in 2023, the new interest rate environment and the potential spillover on institutions' liquidity and funding plans, **CAs should devote specific attention to assessing the ability of supervised entities to promptly implement effective recovery options to boost the liquidity recovery capacity.**
- **Ensure adequate usability and testing of recovery plans, also by means of dedicated dry-run exercises performed by institutions to strengthen their implementation in a crisis.**
- **Assess the suitability of communication arrangements in the recovery plan including for faster means of communication (e.g. social media).**

26. The supervisory review of these aspects would be instrumental in ensuring that institutions' recovery plans are fit for purpose and that they are credible and executable under disparate stressed conditions.

Relevant regulatory products for Topic 3 – Recovery operationalisation

The **Guidelines on the ORC** in recovery planning set up a consistent framework for the determination of the ORC by institutions in their recovery plans and the respective assessment by CAs. They harmonise the ORC determination and assessment, thus improving the usability of recovery plans and making crisis preparedness more effective, which is crucial in the current environment.

¹³ [EBA/GL/2023/06](#).

3. Further considerations

27. Some of the attention points selected for previous ESEPs remain valid, either because in some areas the progress achieved by banks is not satisfactory or because the risk level is not decreasing, but rather increasing. For example, risks remain high that current higher interest rates and persistency in inflation exert pressure on borrowers' repayment capacity, which in conjunction with changes in collateral values, due to property and real estate price movements, can seriously affect the quality of some asset portfolios (e.g. commercial real estate). There are already some indications of a potential deterioration in asset quality, such as rising insolvency rates for non-financial counterparties¹⁴. Monitoring asset quality in general and careful assessment of the above-mentioned portfolios, in particular, should be integrated into CAs' ongoing core supervisory activities.
28. Cyber risk and data security continue to be the key drivers of operational risk according to the EBA's December 2022 Risk Assessment Report. ICT risks, in particular ICT security risk, ICT availability and continuity risks and ICT outsourcing risks have been among the key topics for supervisory attention since 2019, first as part of the Convergence Plans and later in the context of the annual ESEPs. During these 5 years both firms and supervisors achieved considerable progress in ensuring that risks associated with ICT are identified, managed and monitored. However, it is also clear that in our digital age ICT risks and operational resilience must be subject to constant and ongoing supervisory review due to their potential for significant prudential impact. In response to ICT risks, the incoming Digital Operational Resilience Act (DORA) regulation aims to provide a framework for the mitigation of ICT risks and to enhance operational resilience of financial entities across sectors. Accordingly, this has been included among the forward-looking priorities (USSPs) set by the EBA for the 2024-2026 period. Furthermore, data security and reliance will also support the emerging services like crypto assets and services or the transition towards ESG metrics, which will also have to be considered by supervisors.
29. The EBA will maintain focus on sustainable finance in line with its sustainable finance roadmap¹⁵, even if the topic has not been singled out as key item for 2024. The EBA put forward ESG factors and risks in its 2022 and 2023 ESEPs and concluded in its *2022 Convergence Report*¹⁶ that supervisors had started to monitor ESG risks with 65% of the CAs looking into various aspects of institutions' ESG risk awareness and management¹⁷. EU supervisors gained traction with gradually incorporating ESG risk supervision into their supervisory examination programmes, which should continue.

¹⁴ Based on Eurostat data.

¹⁵ [EBA Sustainable Finance Roadmap](#).

¹⁶ [Report on convergence of supervisory practices in 2022](#).

¹⁷ For example, institutions' understanding of the risks to which they, their business and credit strategy are exposed, if those accurately reflect the underlying ESG risk appetite and ensuring that responsibilities for implementing and monitoring ESG targets are set and how ESG risks are embedded into the overall governance framework.

30. There are also other areas where some progress has been observed over the years; nevertheless banks need to speed up efforts, in particular in risk data aggregation and digitalisation strategies. The 2022 Convergence Report concluded that CAs should still investigate the impact of implementing a digitalisation strategy on the business model and risk profile, and, in some cases, the strategy setting process also, including the management body's responsibility.
31. Finally, the institution specific nature of the SREP should guide supervisors with the bank specific supervisory review, where all material idiosyncratic risks should be assessed.

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