

Deloitte Banking Alert

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EBA publishes 2021 annual work programme focusing on innovation and fighting AML/CFT

On September 30th 2020, the European Banking Authority (EBA) published its annual work programme for 2021, which describes the activities and tasks for the upcoming year and also highlights its key strategic areas of work.

The EBA reprioritised its tasks and identified a new horizontal priority to address the consequences of the COVID-19 pandemic.

During 2021, the EBA will focus on six strategic areas: implementing effective resolution tools, reviewing and upgrading the stress-testing framework, becoming an integrated EU data hub, contributing to the sound development of financial innovation and operational resilience in the financial sector, building the infrastructure within the EU to lead, coordinate and monitor AML/CFT supervision and also providing the policies for factoring in and managing ESG risks.

2021 Key priorities

1. Supporting deployment of the risk reduction package and the implementation of effective resolution tools

The full implementation of the new CRD/CRR, BRRD and IFD/IFR legislative packages that assign some mandates to the EBA aiming at strengthening the resilience and resolvability of the EU banks and investment firms will be a top priority in 2021 as well.

The EBA received more than 100 new mandates at the end of 2019, many of these required to be in place in less than 2 years. Thus, the EBA will deliver mandates according to the priorities that were set in 2019 and outlined within different roadmaps.

The EBA will also work in order to stimulate the increase of the loss absorbency capacity of the EU banking system. The resolvability of the banks has improved since the implementation of the BRRD and will benefit from enhanced legislative provisions. Moreover, the EBA is also developing a couple of initiatives in order to facilitate the convergence and operationalisation of the various stages in recovery and resolution.

Moreover, the EBA will continue taking into account the important links between the recovery and resolution phases, focusing on the important aspects of recovery indicators and early intervention measures.

2. Reviewing and upgrading the EU-wide EBA stress testing framework

The methodology of the 2021 EU-wide stress test will likely remain the same, except for only a few clerical errors that have been corrected and some issues that have been fixed.

Quantitative and qualitative information regarding the EU banking sector's financial health will be provided, supporting the EBA work on the Union Strategic Supervisory Priority on business models' sustainability.

The EU-wide stress test will continue to be a microprudential exercise aiming at identifying risk for both the supervisors and the banks and will also continue to provide the market with relevant information about the health of the banking system. Thus, the aim is to integrate the exercise more into the supervisory process and to incentivise the banks even more in order for them to develop their management frameworks.

Following several workshops and roundtables organised by the EBA and taking into account the feedbacks received from stakeholders, the EBA will design a new methodology to be introduced for the 2023 EU-wide stress test at the earliest.

3. Becoming an integrated EU data hub, leveraging on the enhanced technical capability for performing flexible and comprehensive analyses

Starting with 2021, the EBA will be able to provide external stakeholders (including CAs and EU legislators) with timely and comprehensive evidence-based analyses.

The EBA is expected to receive more data requests from the National Competent Authorities (NCAs) and external stakeholders, as the main purpose of the EU data hub project was to provide more comprehensive impact and proportionality assessments.

Thus, the EBA will be a data hub at the service of competent authorities and the public. As approved by the EBA's Board of Supervisors, quantitative Pillar 3 data will be integrated with supervisory reporting data and the EBA will act as a hub for Pillar 3 disclosure.

At the moment, the scope of data to be reported is limited to supervisory data and to master data, which populate the Credit Institution Register and the Payment Institution Register.

A new register for investment firms will be established and some supervisory data will be collected for these type of entities as well. Also, the EBA will strengthen its role within the AML/ CFT supervision by national authorities and it will have to strengthen its role in regards to collection, analysis and dissemination of information related to ML/TF risks and to AML/CFT supervision.

4. Contributing to the sound development of financial innovation and operational resilience in the financial sector

Ensuring technological neutrality within regulation and supervisory approaches will be a top priority in 2021 for the EBA. This will be done by monitoring all the developments and

enhance the knowledge sharing via the EBA FinTech Knowledge Hub and the joint ESAs EFIF.

Specific areas of work will include regulatory and supervisory technologies, further work on operational resilience, and understanding developments in regards to crypto-assets, artificial intelligence and big data.

5. Building the infrastructure in the EU to lead, coordinate and monitor AML/CFT supervision

Following the ESA review, the role and mission of the EBA with regard to AML/CFT have increased significantly starting with 2020. Thus, the EBA will continue promoting effective and consistent policy implementation by the NCAs.

Also, during 2021, qualitative and quantitative information will be gathered by the EBA in order to build a database that promotes exchange of information between NCAs and supports the new AML colleges.

6. Providing the policies for factoring in and managing ESG risks

Promoting better disclosure, governance and risk management of ESG risk factors will be a top priority in 2021. The EBA will draft the report on the incorporation of environmental, social, and governance (ESG) factors into the risk management of institutions and supervisions, this way setting out the policy direction, indicators and methods on ESG-related governance, risk management and supervision.

Furthermore, the EBA will also prepare the ITS on ESG Disclosures in Pillar 3, highlighting both qualitative and quantitative information in regards to ESG factors.

Focus on horizontal priorities for 2021

Regarding its horizontal streams of work, the EBA will continue working towards:

1. Establishing a culture of sound and effective governance and good conduct in financial institutions

The EBA will work in order to ensure that the issues in regards to governance, conduct as well as sustainability factors are appropriately captured within relevant supervisory frameworks (in particular ensuring that governance and conduct issues are also addressed within the internal control framework of the institution).

2. Addressing the aftermath of COVID-19

The EBA will be actively monitoring and mitigating the effects of the COVID-19 pandemic upon the EU banks, will intensify the assessment of asset quality and monitor the use of moratoria and public guarantees in order to ensure that all the risk metrics are still reliable.

Nonetheless, COVID-19 will be a catalyst for the EBA to become a fully digital agency in the following years. This perspective is already included in the IT Strategy that has been approved by the BoS in December 2019.

The EBA will maintain its core mandate of maintaining a robust prudential framework able to stimulate financial stability for both depositors and consumers and will adapt its work accordingly if the COVID-19 crisis will require it.



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Sources:

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