



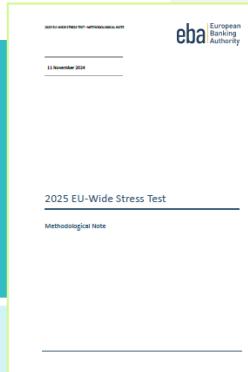
EBA EU Wide Stress Test 2025

Our views on the methodological note and service offering

November 2024

Executive Summary

The European Banking Authority (EBA) provided the methodological note and supporting templates for the EBA Stress Test (ST) 2025 on 12 November 2024



The introduction of CRR3, updated methodological note and addition of new templates and calculations, will increase complexity and need for capable resources to anticipate impacts and navigate the uncertainty of the 2025 ST exercise.

This document contains the following:

1. New information published November 2024, including timelines and updates to the methodological note (Slide 3)
2. Comparison of the methodological note 2025 with 2023, including expected effort required and our recommended actions (Slide 4-8)
3. Our service offering (Slide 9)



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The starting point will need to be stated in actual and CRR3 figures, with projections depending on the latter. Given this complication, timelines have been extended for the 2025 exercise.

Credit risk revision of asset classes will bring changes to exposure projections and risk parameter use.

Market risk will be exempt from application of CRR3, except for CVA and calculation of the Advanced Standardised Approach (ASA). Also, new proportionality groups are introduced.

NII projections centralized to increase comparability of stress test results. Additional calculations and reporting to be performed.

New information November 2024

Introduction

The draft methodological note 2025 was published on 5 July 2024 for discussion. Main feedback from the banks was the difficulty and time needed to incorporate CRR3 fully into the stress test. After receiving feedback from the banks, updates were made to both the timelines and the methodological note. On 12 November 2024, the EBA published the key timelines together with the methodological note, templates and template guidance for the 2025 exercise. We have compared all paragraphs between the draft methodological note (July 2024) and the final methodological note (November 2024). This slide summarizes all new information from the November 2024 publication.

Removal of the CSV_CR_COVID19 template

In the draft methodological note, the CSV_CR_COVID19 template was required. This template is removed from the scope, as well as two articles covering this template.



Extended timelines due to CRR3

Based on the feedback received, the timelines were extended compared to 2023. Effectively, it seems the exercise will start ~1-2 weeks earlier in January and finish ~3-4 weeks later in April for the first submission. A total increase of 4-6 weeks. This then pushes back the later submissions, as well as the publication of the results.

Key milestone	2023 Exercise	2025 Exercise
Exercise launch	End of Jan 2023	2 nd half Jan 2025
First submission	Begin Apr 2025	End of Apr 2025
Second Submission	Mid-May 2025	Early Jun 2025
Final Submission	Mid-July 2023	Early Jul 2025
Publication results	End July 2023	Begin Aug 2025



Adjusted paragraphs and additional Annex IX

Paragraphs were adjusted and an additional Annex IX added that gives a summary of CRR3 requirements. Updates of the paragraphs mainly relate to clarification (e.g. on market risk and NII), with a few specifics that stand out:

- Clarification that national discretions for CRR3/CRD6 should be considered if applicable before or on 1 January 2025 (Adjusted Par. 27)
- New models and/or modifications are only mandatory when both approved and implemented, not only approved (Adjusted Par. 28 / 29)
- Both linear and optional derivatives are in scope of the CSV_MR_FULL_REVAL template (New Par. 247)
- Explanation on what to do if a bank does not explicitly calculate funding value adjustment for accounting purposes (New Par. 302)
- DBRS, Fitch, Moodys Investors Service and S&P Global are the minimum sources to consider for ratings in CCR (New Par. 328)
- All banks applying the BA-CVA approach (including CA and CA-adv) may assume that the capital charge is equal to the starting point value under the adverse scenario (Par. 342)



Overall updates

Application of CRR3

As the Capital Requirements Regulation III (CRR3) becomes effective per 1 January 2025, the EBA has incorporated these requirements into the 2025 stress test exercise. Following requirements:

- Starting point values per 31 December 2024 need to be reported both under the regulatory framework that was applicable per 31 December 2024, and CRR3 (effective 1 January 2025). CRR3 shall also be applied for the projections over 2025-2027. The explanatory note will require additional detail regarding the impacts of the restatement and assumptions taken.
- Many articles were updated to reflect CRR3, including new exposure classes for credit risk, the output floor, and application of transitional arrangements.
- Market risk calculations exempt from CRR3, except for CVA. For details see the market risk section in this slide deck.

Many banks are still working on their CRR3 implementation and being able to report and stress testing CRR3 data will be a major challenge.

Restatement of starting point values (Par. 25)

 "Actual" data as per 31 December 2024

 "Restated" data as per 31 December 2024

 Projections over 2025-2027

CRR3 applicable

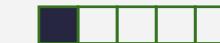
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Increased proportionality

- Proportionality elements can be applied by banks with assets below EUR 50 billion (Par. 9). In 2023, proportionality elements could only be applied by banks that enter the sample after 70% of coverage (total coverage includes the banking sector in the euro area, each non-euro area EU Member State and Norway).
- New market risk proportionality groups. For details see the market risk section in this slide deck.

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Recommended actions

- Assess possibility of reporting starting point values under both CRR2 and CRR3.
- Test whether current stress test environment and models are able to run based on CRR3 data. If not, enhance current environment and models.
- Conduct (multiple) dry-runs before December 2024 to test readiness of dual-reporting, stress test models and impact of CRR3.
- Determine whether proportionality elements can be applied and if so, update processes to accommodate these proportionality elements.

Credit risk updates

Increased coverage country-sector combinations (Par. 107)

Minimum coverage of exposure increased from 70% to 80% for country-sector combinations. Previously immaterial sectors could now be in scope, for which satellite models need to be developed and or other approaches adopted.



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Clarification on what to do when no appropriate satellite models (Par. 121)

Explanatory note should detail the approach for economic sectors with no satellite model for sector level predictions. Acceptable loss distribution approaches include:



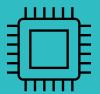
1. Sectoral sensitivities using correlation of sector specific GVA to overall macroeconomic conditions at country level
2. Allocation based on the size of the sectoral exposure at country level.

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Specific exposure classifications IRB (Par. 158)

Banks with permission to use the IRB approach for equity exposures should continue to report these exposures under the IRB approach for the restated starting points and the stress test projections.



Exposures classified as IRB 'Corporates-Large Corporates' and "Institutions" for which banks shall use the F-IRB approach, should also be classified under F-IRB for reporting the restated data, while they should be classified under the original asset classes when reporting the actual data.

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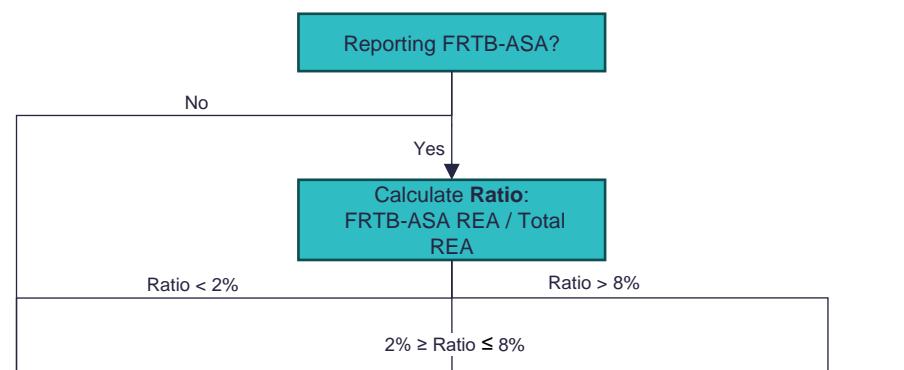
Recommended actions

- Calculate the country-sector combinations needed to cover 80% of exposure and assess availability of appropriate satellite models (or develop models if not available).
- Assess acceptability of fall-back approaches used in cases no sector level satellite models exist and/or develop alternative approaches in line with EBA requirements.
- Test whether current systems and processes are ready for all required classifications of exposures.

Market risk, CCR losses and Valuation reserves

Proportionality groups (Par. 197, 213, 214, Section 3.4.5. & Annex V)

Banks are classified into three proportionality groups by the supervisor before the start of the exercise based on pre-defined criteria. This provides relief for banks with limited market risk.



Trading Exemption (TE)

- No revaluation of items held with a trading intent and their related hedges.
- Impact of items held with trading intent and their related hedges set equal to zero.
- No granular reporting of delta and second other sensitivities. However, P&L and OCI impact by delta and second order sensitivities for all items NOT held with a trading income should be reported.

 CSR_MR_FULL_REVAL

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Comprehensive Approach (CA)

Complete submission of the full revaluation template.

 CSR_MR_FULL_REVAL

CA Advanced (CA-Adv)

All CA requirements and additional detail for the revaluation of linear and optional derivatives to be provided in a dedicated template.

 CSR_MR_FULL_REVAL
 CSV_MR_OPT_REVAL

Change in calculation method of client revenues with trading intent (Par. 199, 311, 312)

Banks classified as TE are allowed to set client revenues at 80% of the average across last 3 years if data is provided. For CA and CA-Adv banks, the average across the last 3 years serves as cap in the adverse scenario. This requires availability of granular data and updating current calculations.



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Recommended actions

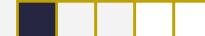
- Determine which proportionality group applies and adjust processes and runbook accordingly
- For banks classified as TE, assess whether historical data on client revenues is available for the last three years and implement new calculation methodology.
- Calculate and analyse whether the impact of the additional default for CCR could lead to materially different stress test results

Additional default considered for CCR (Par. 200, 324, 326)

Assumption updated that three instead of two most vulnerable counterparties out of the 10 largest counterparties will default. This will lead to higher capital requirements.



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Market risk, CCR losses and Valuation reserves

CVA projections compliant with CRR3 (Par. 342-344)

CVA calculation are to be performed in line with CRR3. Calculations and projections are dependent on which proportionality group is assigned, as well as which approach is adopted under CRR3.

Scenario	TE	CA	CA-Adv
Baseline	CVA capital charge in baseline scenario assumed to be equal to starting point		
Adverse	CVA capital charge in adverse scenario assumed equal to starting point	<p><i>Simplified / BA-CVA</i></p> <p>CVA capital charge in adverse scenario assumed equal to starting point</p>	<p>Stressed CVA capital charge</p> <p><i>SA-CVA</i></p> <p>Apply scenarios to exposure at counterparty level, for all relevant CVA risk factors*. For each risk factor, compute all sensitivities under stress. Aggregate calculations in line with CRR3 to determine CVA capital charge. Increase in the capital charge for the adverse scenarios is floored at the relative increase of REA in the IRB portfolio.</p>

*i.e. interest rates, credit spreads, foreign exchange rates, and equity prices



Look-through for funds not allowed (Par. 260)

New paragraph clarifying that banks are not allowed to apply a look-through approach, deviating from the CRR approach. Fund positions must be stressed with the corresponding fund shocks provided in the market risk scenario.



Output floor (Par. 345)

Advanced Standardised Approach Risk Exposure Amounts (ASA REA) and Standardised Approach (STA) approach considered for calculating the output floor, keeping values constant over the projection horizon.



 **Recommended actions**

- Based on proportionality group, determine which approach applies for CVA and ensure calculations can be performed.
- Review current models for calculation of FuVa, liquidity and model risk.
- Assess whether the bank holds fund positions and reassess current approach if look-through approach is currently used.
- Provide input to the EBA on any concerns relating to the calculation of the output floor.

Net Interest Income and various

Updates to Net Interest Income projections (Chapter 4, Annex VIII)

Projections are provided for instead of calculated by the bank. Additional calculations are added, e.g. the Average Original Maturity (AOM).

NII for held-for-trading positions will be equal to the average of accrued interest from these instruments over the last three historical observation periods.



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Additional granularity for regulated and legal exceptions in the NII template

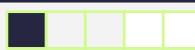
New tables added to the CSV_NII_SUM on the following topics below, as well as a new template CSV_NII_CALC_FUNDING_MATCH.

- Legal floor sight deposits (Par. 395)
- Regulated sight deposits (Par. 396)
- Legally exempted new business (Par. 424, 426)

This is only applicable to specific countries and products, as referred to in the methodological note. Data processes should be ready to provide this granularity.



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Other updates and clarifications

- Operational risk events with a lifespan of several years should be aggregated year by year (Par. 451)
- Changes to conduct risk may occur during subsequent data submissions if new information or data becomes available* (Par. 460)
- Projections of contributions to Deposit Guarantee Schemes (DGS) are allowed to fall below the 2024 value, however, description in the explanatory note is required (Par. 502)
- Considerations for banks applying IAS 29 (Par. 503, 539, 551)
- War related losses should be considered as part of operational risk (Par. 436)
- One-off adjustments for temporary levies permissible for assessment by competent authorities (Par. 511)
- Further details provided on amortisation of intangible assets (Par. 546) and new paragraph requiring explanation in the explanatory note (Par. 547)



*Cut-off date 3 June 2025.

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Recommended actions

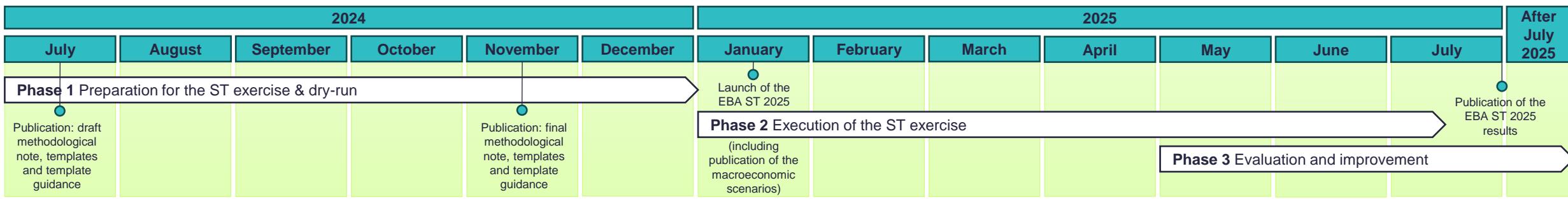
Prepare calculations and reporting for the net interest income projections, including regulated and legal exceptions, if applicable.

Perform a line by line comparison of the 2025 methodological note and update the stress test processes and runbook before launch of the exercise. This slide contains a non-exhaustive list of other updates and clarifications



4most has performed a line by line comparison. An extensive Excel is available and we are more than happy to support you. See our service offering for further details on how we can help.

Our service offering



Phase 1

Preparing the bank for the stress test exercise and ensuring compliance with the methodological note.
 Example activities include:

- (Re-)development and/or recalibration of ST models
- Validation of stress ST models
- Implementation of CRR3
- Creating work-arounds in case of deficiencies
- Preparing data flows and data quality checks and reconciliations
- Drafting and/or updating the ST runbook
- Performing and/or supporting dry-run ST exercises
- Technical interpretation of methodological note
- Gap analysis of current stress testing against the methodological note and remediation of gaps
- Training sessions and materials
- Executing recommended actions (see previous slides)

Phase 2

Providing resources and technical support to handle increased workload during stress test exercise.
 Example activities include:

- Data preparation, processing and template filling
- Data quality checks and reconciliations
- Running of the stress testing models
- Analysing and interpreting stress test results
- Drafting and/or review of the explanatory note
- Submitting data to the ECB Stress Test Analytical and Reporting (STAR) Portal
- Follow-up of Red Flag Report
- Technical board support on (ad-hoc) questions and troubleshooting
- Project management
- Logging findings for future enhancements

Phase 3

Supporting the process of evaluation and improvement (including remediation of findings and deficiencies).
 Example activities include:

- Evaluation and review of the ST exercise to identify areas for improvement
- (Re-)development and/or recalibration of ST models
- Validation of ST models
- Remediation of findings and structurally solving work-arounds in case of deficiencies
- Enhancing data flows and data quality checks and reconciliations
- Updating the ST runbook based on lessons learned
- Assessing impact of ST results on existing risk management and capital planning

Services may be rendered on a time and material basis, staff augmentation or fixed fee

Your key contacts



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