

## Regulatory Blog

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# EBA publishes draft stress test methodology and templates for 2025

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On Friday, July 5th the European Banking Authority (EBA) published the long-anticipated draft versions of the **2025 stress test Methodological Note, Templates and Template Guidance**. After the 2023 stress test methodology did not introduce significant changes, the 2025 methodology will confront banks with several new challenges, including the incorporation of CRR3.

## Overview

As in previous years, the EBA's stress test will be used to assess the resilience of the European banking sector by subjecting large institutions in the EEA to a severe macroeconomic scenario. The impact of this scenario on the banks' capital ratios will be calculated and publicly disclosed as well as impact the 2025 Supervisory Review and Evaluation Process (SREP) and setting of Pillar 2 Guidance (P2G). As before, the calculation will be performed by the banks, based on a methodology and scenarios provided by the EBA and ECB and subject to intense quality assurance.

Major innovations with regards to prior exercises concern the introduction of CRR3 into the methodology, centralisation of NII (net interest income) calculations and additional elements of proportionality. The revised methodology however does not implement the so called two leg approach that featured in a 2020 discussion paper from the EBA and that would have led to an even more fundamental revamp of the methodology.

## Including CRR3 into the stress test

With the publication of the final CRR3 and CRD6 in the EU's official journal on June 19th, the EBA decided that credible stress test results would need to incorporate these revised rules, impacting in particular the calculation of credit risk weighted assets. Hence, banks need to restate their starting point credit risk exposures and REA, mapping them to the revised CRR3 rules and exposure classes. This includes also calculating both unfloored (U-TREA) and floored risk weighted assets (F-TREA), i.e. the application of the standardised approach for the whole portfolio as per end of 2024 and thus even before the formal date of application of CRR3 rules. This extends beyond the area of credit risk, covering also operational risk (calculation of the new OpRisk SA per 31.12.2024) and market risk (using the A-SA to calculate the floor for IMA banks). Finally, both transitional and fully phased-in capital ratios need to be calculated, taking into account numerous transitional arrangements provided by CRR3 thus adding additional complexity.

## Streamlining NII calculations

The most severe change around net interest income (NII) concerns the forecast of margin and reference rates within the STAR portal of the ECB, rather than by the banks (with few exceptions such as positions subject to hedge accounting). As the formulas to forecast NII have become quite prescriptive, it may seem reasonable to take their application away from the banks and move it to a central platform run by the supervisors. At the same time, this takes away control over the results from the banks, adding to the top-down elements the EBA is intend on increasing. Several additional changes are introduced, such as the clear differentiation between banking and trading

book (making it more challenging to rely on FINREP data) as well as an additional Funding Match template.

### **Adding additional proportionality**

Finally, elements of proportionality are added, such as a further differentiation in the area of market risk between trading exemption (already present in past stress tests), comprehensive approach and advanced comprehensive approach (new).

The EBA also promises to align the process to consider the parallel implementation of CRR3, for example by adjusting submission dates and enhancing the FAQ (Frequently Asked Questions) process.

### **What to do now?**

With the publication of the draft methodology, it is now up to the banks to analyse the impact on their existing stress test data and infrastructure. Especially the inclusion of CRR3 in the calculation of Risk Exposure Amounts as per end-of-2024 might be a challenge for many banks, similar to the restatement required in the 2018 stress test for the first-time application of IFRS 9. Including CRR3 implementation projects in the analysis of the draft methodology and planning of the 2025 exercise therefore is paramount.

If you are interested in a more detailed overview of the changes to the methodology as well, we access to our experience of supporting banks in the EBA / ECB Stresstest since the start of the SSM, please feel free to reach out to us!

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### **Keywords**

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