

EBA stress test 2025

The CRISIL Advantage



The European Banking Authority (EBA) is set to hold the next European Union-wide stress test (ST) in 2025. It has published the draft methodology, templates and template guidance for initial discussions with the industry and will release their final versions after incorporating the feedback of participating banks from the EU and Norway.

CRISIL has over a decade of experience in helping financial institutions with EBA stress test submissions. We offer strong capabilities that support financial institutions in the end-to-end execution of the EBA stress test across risk categories.

Summary

Assumptions

The stress test will assume a static balance sheet and no hurdle rate, and will not define a capital threshold. Also, it will consider the commission's announcement to postpone the application date of the Fundamental Review of the Trading Book (FRTB).

Macroeconomic scenarios and timelines

Banks will have to report data and projections for two scenarios—baseline and adverse—which will cover three-year projections over 2025-2027. The EBA will start the stress test from January 1, 2025 and publish the results by the end of July 2025.

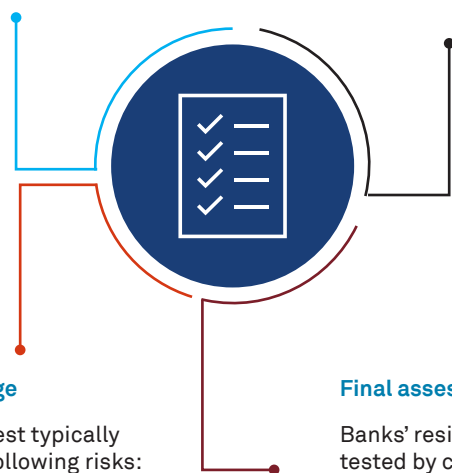
Risk coverage

The stress test typically covers the following risks:

- Credit risks, including securitisation
- Market, credit value adjustment (CVA) and counterparty credit risks
- Net interest income-related risks
- Conduct and other operational risks

Final assessment

Banks' resilience will be tested by calculating annual capital ratios such as the Common Equity Tier 1 or CET1, Tier 1 Capital, total capital and leverage ratios for every year of the projection period.



What changes?

General tweaks

- Use of the latest Capital Requirements Regulations (CRR3) to compute the risk exposure amount for credit, CVA, conduct and other operational risks
- Introduction of output floor for the risk-weighted exposure amount (REA) of credit, market and operational risks
- Smaller banks with assets below €50 billion can also follow the proportionality approach mentioned in Annex IX of the methodological note

Market risk, CVA and CCR

- Introduction of an additional class within proportionality approach to classify banks under Market Risk REA: Trading Exemption (TE), Comprehensive Approach (CA) and Advanced Comprehensive Approach (CA-Adv)
- All banks will have to report additional funding valuation adjustment under valuation reserves
- For counterparty credit risk (CCR) reporting, banks must assume three of the ten most vulnerable counterparties will default (against the earlier assumption of two of ten counterparties)

Credit risk

- The internal ratings-based (IRB) approach will be replicated with standardised exposures for the full projection period
- Banks with public guarantee scheme exposures of more than €750 million as of December 31, 2024, will use the CSV_CR_COVID19 template

Net interest income (NII)

- The scope includes interest-earning or interest-paying positions across accounting categories and excludes held-for-trading positions and related hedges
- To ensure standardisation, the supervisory authority will provide a central approach while banks will project only margins of derivatives

Conduct and other operational risks

- Banks will stress their conduct risk losses using a qualitative or quantitative approach with a floor for new non-material conduct risk losses
- As a fallback approach, operational risk loss projections will be calculated as a function of gross earnings (the relevant indicator)

CRISIL's offerings for EBA stress testing



Data acquisition

- Extraction, enrichment and transformation of trade/transaction, macroeconomic, market and reference data
- Scenario coherence and time series quality checks



Scenario design and expansion

- Coherent application of EBA scenarios in scenario design and the bank's portfolio
- Expansion of macroeconomic and market factors (e.g. variable matching/mapping, interpolation and regression)
- Application of adjustment/overlays to variable paths based on stakeholder review and challenge



Stress modelling and impact analysis

- Selection, validation and feeding of risk parameters into capital forecasting models

- Scenario capital and provision impact analysis under internal models and standardised approaches



Reporting and template completion

- Completion of EBA stress test templates as per standards
- Evaluation of the integrity, robustness and consistency of output, including daily monitoring of outputs in the execution phase



Governance and documentation

- Facilitating review, challenge and conclusion of scenario outputs
- Performing quality assurance on completed templates prior to regulatory submission

CRISIL's value proposition

Domain expertise: Deep understanding in scenario design, regulatory/internal scenario expansion, model development/validation and reporting

Regulatory knowledge: Expert knowledge of global banking regulations, including those of ECB/EBA, CCAR, BoE/PRA and other regional guidelines

Analytical talent pool: A large, highly qualified talent pool with

analytical rigour that can drive and execute stress testing framework front to back

Effective execution: Proven track record of executing time-sensitive engagements through a global team of experienced consultants

Flexible operating model: Our scalable, flexible, cost-efficient and transparent operating model ensures execution in line with the clients' unique objectives

**For further information,
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