



BANK OF ENGLAND

News release

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Bank of England statement on EBA stress test publication

The European Banking Authority (EBA) has today published the results of its EU-wide stress test. The 2014 UK stress testing exercise will build on the EU-wide stress test by exploring particular vulnerabilities facing the UK banking system. As previously announced, the Bank of England will publish the results of the UK variant stress test on Tuesday 16 December.

It is important to note that the EBA results should not be interpreted as indicative of the UK results, nor can the results of the UK stress test be inferred from the EBA results. Although the EBA stress test and UK variant stress test are complementary, there are a number of significant methodological differences between the two.

These include:

- Balance sheet assumptions: the EBA test uses a static balance sheet. The Bank of England stress test uses a dynamic balance sheet definition, so that the size and composition of banks' balance sheets are allowed to vary throughout the scenario. Simple read-across therefore cannot be made.
- income and expense: the EBA applies simple income-caps and expense-floors. The UK exercise does not apply these caps and floors so income could increase and expenses could fall.
- UK house-price fall in both stresses: it is not possible to infer the impact of the housing stress for the UK test from the EBA results. This is because additional house price falls (as seen in the UK test) do not necessarily have a linear effect on impairments.

Definition of capital

In April 2014, the Bank of England set out a definition of capital for UK firms to use for the purpose of the 2014 EU-wide stress testing exercise, in order to improve comparability and consistency across EU firms. This definition followed the Capital Requirements Regulations (CRR) minimum transition path for certain deductions from CET1 capital.

The EBA has now introduced additional disclosures to help improve comparability and consistency, particularly the explicit disclosure of fully loaded CET1 ratios for all banks. The Bank of England welcomes this important additional comparability.

As a result, for the purpose of the final published 2014 EU-wide stress testing results, the Bank of England has asked UK banks to use a definition of capital that follows the UK implementation of CRR. The only exception is that, for the purpose of the 2014 EU-wide stress-testing exercise, firms should follow the EBA's common approach for the application of prudential filters for sovereign assets in the Available For Sale (AFS) portfolio.

This definition is consistent with the definition of capital set out by the EBA in their report on the exercise, as published today.

Notes to Editors

[Results of 2014 EBA stress test](#)

[Bank of England announcement of the timetable for publication of the 2014 UK stress testing results](#)

[Bank of England announcement of the UK-variant stress test](#)

[Stress testing the UK banking system: key elements of the 2014 stress test](#)

The UK implementation of CRR follows near end-point treatment to deductions from CET1 capital from 1 January 2014, whereas most of the national authorities across the EU have opted to apply some of the transitional provisions which phase in the deductions gradually over a 5-10 year period.

