



EUROPEAN CENTRAL BANK

EUROSYSTEM

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DG Micro-Prudential Supervision IV

The Single Supervisory Mechanism (SSM)

ECB Central Banking Seminar

Frankfurt, 9 July 2018

Agenda

- 1** **SSM raison d'être**
- 2** Organisation of the SSM
 - 2a** Supervision of Significant Institutions
 - 2b** Supervision of Less Significant Institutions
 - 2c** Horizontal functions and specialised expertise
- 3** Looking back: Impact until now
- 4** Looking forward: SSM Supervisory Priorities 2018 and beyond
- 5** Key conclusions

Recent financial crises lead to the establishment of the banking union

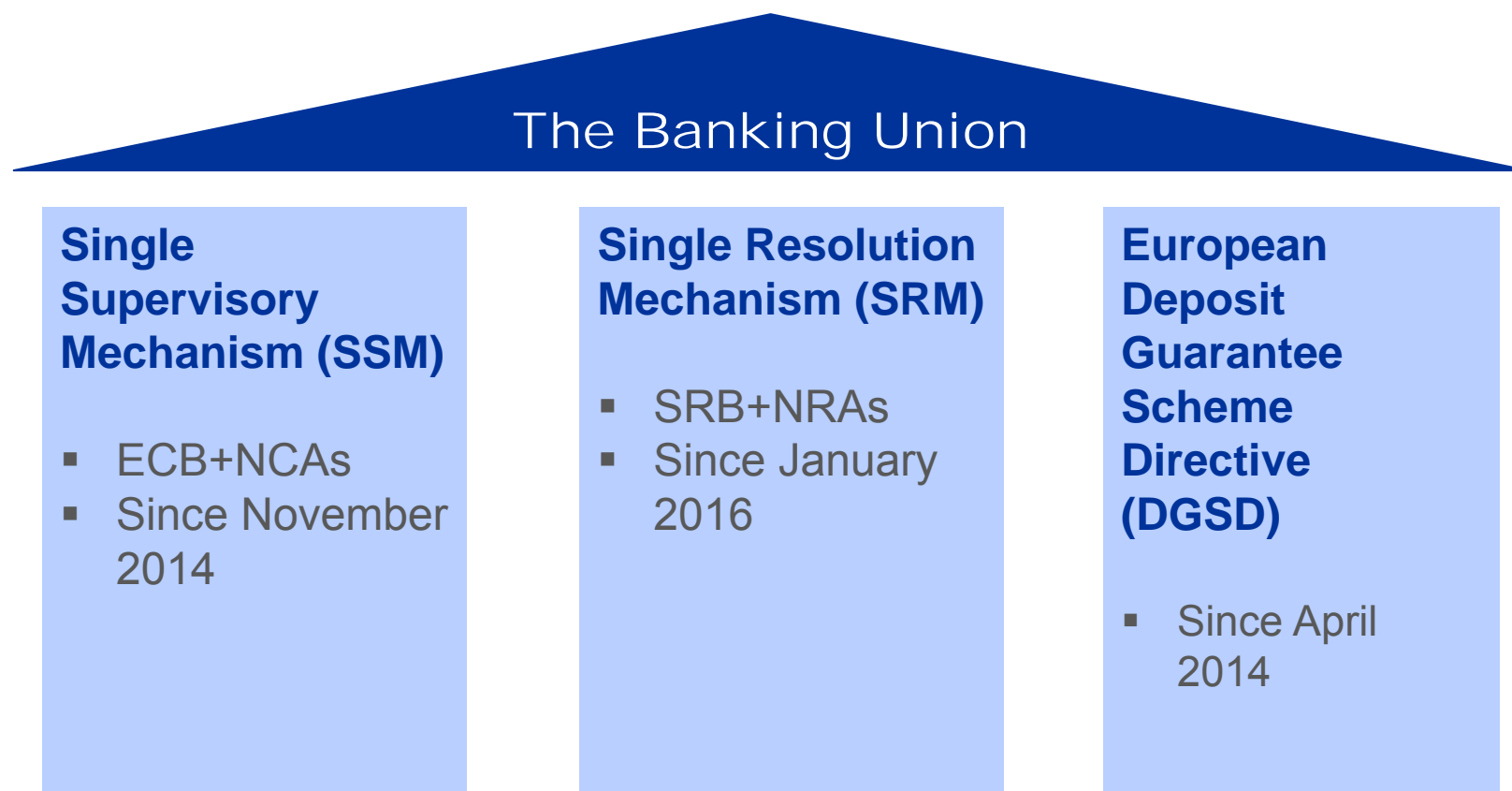
Purposes of the banking union

Increased transparency by consistently applying common rules and standards

Equal treatment of national and cross-border banking activities

Early intervention of banks in problem situations and if necessary resolution

The banking union is based on three pillars, amongst which the SSM



Single rule book: Capital requirements regulation ('CRR') and directive ('CRD IV') – Bank resolution directive ('BRRD')

The SSM aims to achieve a resilient banking system and further harmonised supervision...

Article 1 SSM Regulation

“This Regulation confers on the ECB specific tasks [...] relating to the prudential supervision of credit institutions, with a view to

contributing to the safety and soundness of credit institutions and the stability of the financial system within the Union and each

Member State, with full regard and

duty of care for the unity and integrity of the internal market based on equal treatment of credit institutions with a view to preventing regulatory arbitrage.”

Objectives of European banking supervision

- 1. Resilient banking system**
 - Identification of relevant risks
 - Fair and consistent assessment of risks
 - Timely and tough intervention in case of identified deficiencies
 - **Tough and forward-looking supervision** of credit institutions
- 2. Harmonised supervision**
 - Development of harmonised supervisory methodologies and approaches
 - Consistent application of the supervisory framework across all participating countries
 - Creation of a **supervisory level playing field**

... while avoiding conflicts of interest between the supervisory and monetary policy tasks

Article 25 SSM Regulation

"The tasks conferred on the ECB by this Regulation shall neither interfere with, nor be determined by, its tasks relating to monetary policy. [...]"

The staff involved in carrying out the tasks conferred on the ECB by this Regulation shall be

organisationally separated from, and subject to, separate reporting lines from the staff

involved in carrying out other tasks conferred on the ECB."

Implementation of the separation principle

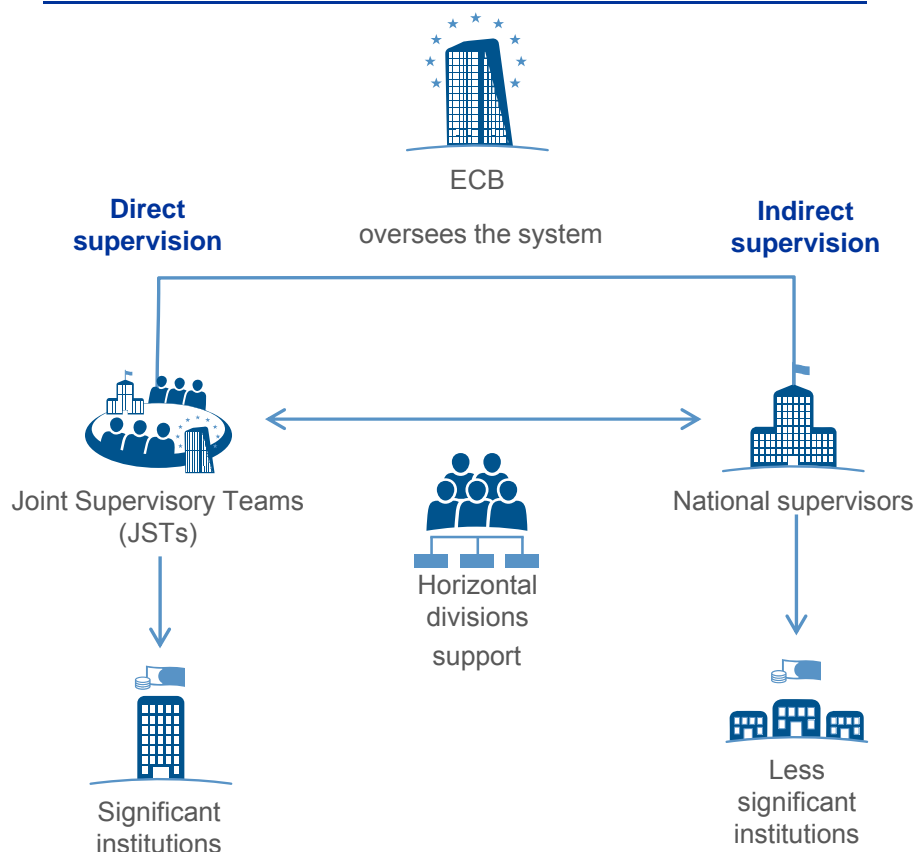
- **Independent Supervisory Board**
- **Governing Council to adopt or object** but not modify proposed decisions
- **Rules on information-sharing** between monetary policy and supervisory functions
 - Confidential information only shared on a need-to-know basis and with approval of the Executive Board
- Separation at staff level with the establishment of a **dedicated organisational structure** reporting to Chair/ Vice-Chair of the Supervisory Board

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The SSM is an integrated system based on cooperation between national supervisors and ECB

Distribution of tasks within the SSM



Criteria for Classification as Significant Institution

1. Assets over **EUR 30 billion**
2. Representing **> 20% of national GDP** unless total assets < EUR 5 billion
3. Being among the **three most significant institutions** in each participating Member State
4. Institutions that have **requested or received ESM or EFSF public financial assistance**
5. **Less significant institutions when necessary** to ensure consistent application of high supervisory standards

... and had to create a new European supervisory culture

➤ **A challenging task**

- 26 national authorities from 19 different countries, speaking different languages, having different national supervisory cultures and traditions

➤ **... tackled from a mutual basis ...**

- Shared objective: safe and sound banking system
- Common methodologies and harmonised approaches

➤ **... through an interlinked structure ...**

- Strong JSTs to supervise banks
- Networks of experts for “horizontal” issues

➤ **... as well as constant dialogue and improvement**

- Meetings & workshops
- Staff exchanges
- System-wide training
- Special traineeship programme with NCAs
- Feedback in both directions



Key SSM facts

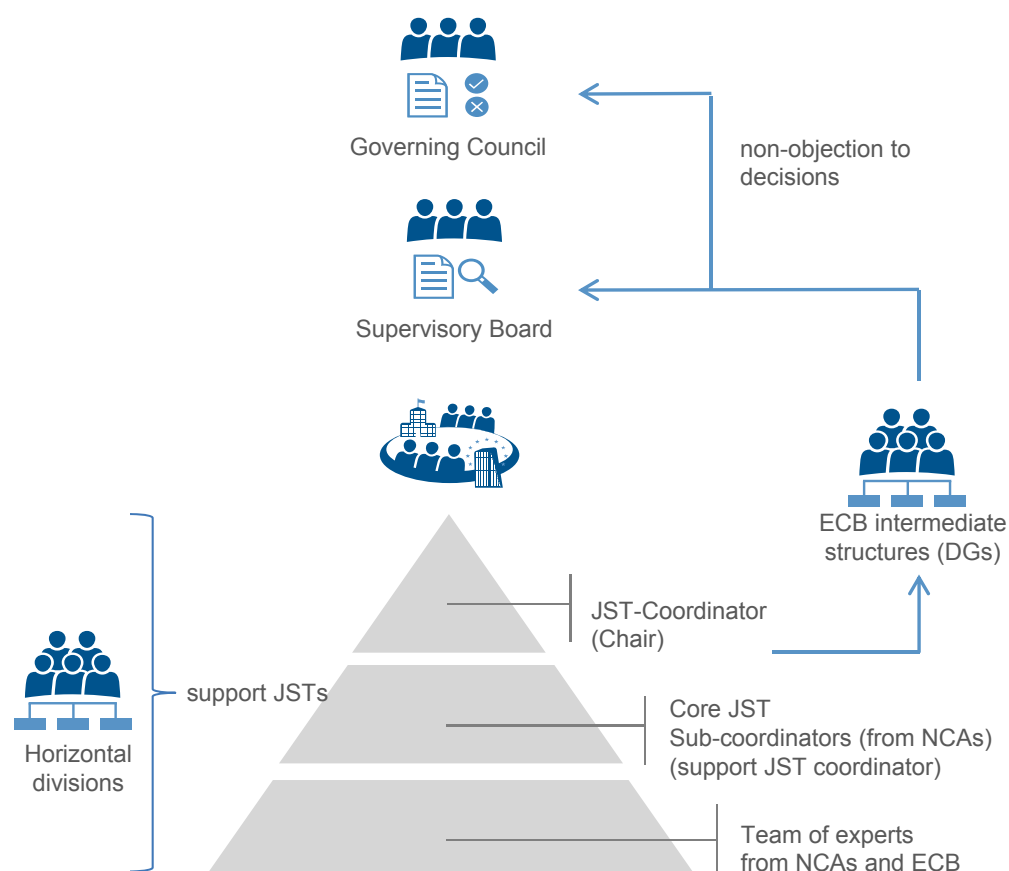
- The SSM is one of the **largest banking supervisory authorities in the world.**
- Currently **118 banking groups** in 19 countries are under direct ECB supervision
- Almost **82 %** of euro-area banking assets are under direct ECB supervision
- Around **3,200 smaller institutions** at solo level are directly supervised by the National Competent Authorities (NCAs), with the ECB being responsible for the system at large
- Banking assets under direct and indirect ECB supervision amount to **more than 26 trillion Euros** → about **2.6 times euro-area GDP**

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Supervision of Significant Institutions is based on the Joint Supervisory Teams

Functioning of JSTs



- Established for **every banking group**
- Comprising staff from **ECB and NCA**
- Responsible for **day-to-day supervision** and for implementing the annual supervisory programme
- Responsible for **implementing decisions** of Supervisory Board/ Governing Council

Three general principles for supervision of Significant Institutions

- **Forward looking, judgement and risk-based supervision**, grounded in strong analysis and addressing potential problems in a timely manner:
 - Deep understanding of risk factors and core business lines at individual banks and across sector
 - Linkages between banks and the rest of the financial system
 - In-depth analysis of risk governance, risk culture, business model and risk appetite
 - Regular high-level interactions at board and executive management levels

- **Multiple perspectives on risk and free flow of information**
 - to promote cross institutional perspective
 - to foster best supervisory practices and insights across institutions and countries
 - with no over-reliance on one model or methodology

- **Deep integration between ECB and NCAs**
 - dialogue, close cooperation, exchange of information and views
 - ECB supervisory knowledge built upon NCAs knowledge

Applying these principles in SSM supervision

➤ Quantitative and qualitative analysis

- Risk level and Risk control assessment
- Backward and forward-looking assessment (e.g. PDs, LGDs, results of stress-tests)

➤ “Constrained judgment” as an anchoring point

- Ensures consistency across banks while allowing for expert judgment

➤ Risk-based approach and compliance with regulatory requirements

- Assessing material risks (risk exposures)
- Assessing organisational safeguards and internal control mechanisms
- Input from extensive on- and off-site work based on regulatory, external and ad-hoc data

➤ Proportionality

- Reflecting systemic impact, supervisory complexity and riskiness of a bank
- Frequency, scope and intensity of the assessment reflect proportionality
- Minimum engagement levels to ensure continuous and comparable intensity

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National competent authorities remain the first contact point for Less Significant Institutions

Distribution of tasks regarding LSIs

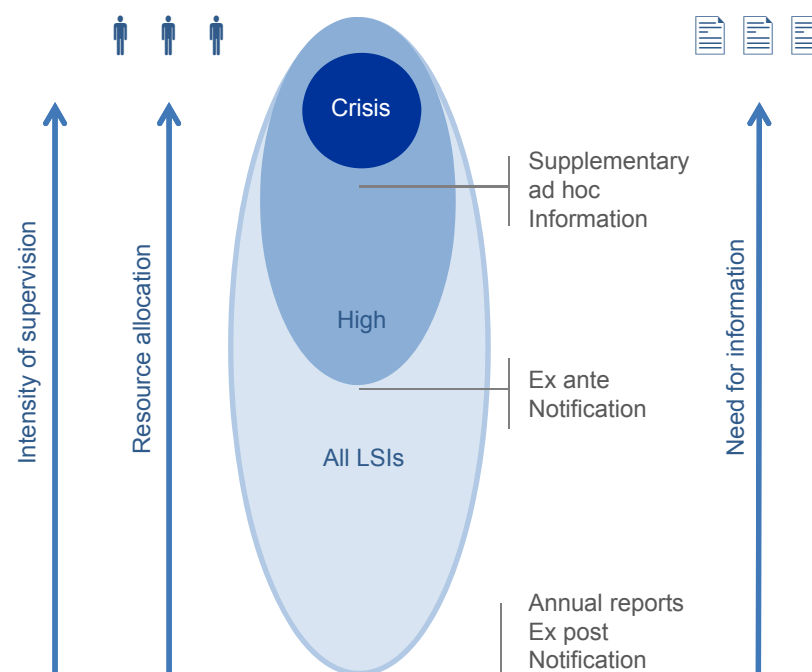


- ECB with overall responsibility
- ECB compares on SSM-level and between sectors
- ECB provides expert support
- ECB promotes best practices
- ECB grants or withdraws banking licenses and assesses acquisitions of qualifying holdings



- NCAs bear primary responsibility for supervisions
- No duplication of national tasks at ECB level

Indirect ECB-supervision of LSIs



General principles for supervision of Less Significant Institutions

➤ **Cooperation**

- NCAs directly supervise less significant banks
- ECB will receive information on less significant banks
- ECB will exercise oversight over the system; this ensures the 'singleness of the SSM'

➤ **National supervisory teams**

- ECB may request NCAs to involve staff from other NCAs when appropriate

➤ **Tools for ECB oversight**

- NCAs will have to abide by ECB regulations, guidelines and general instructions
- ECB may decide to exercise direct supervision to ensure 'consistent application of supervisory standards'

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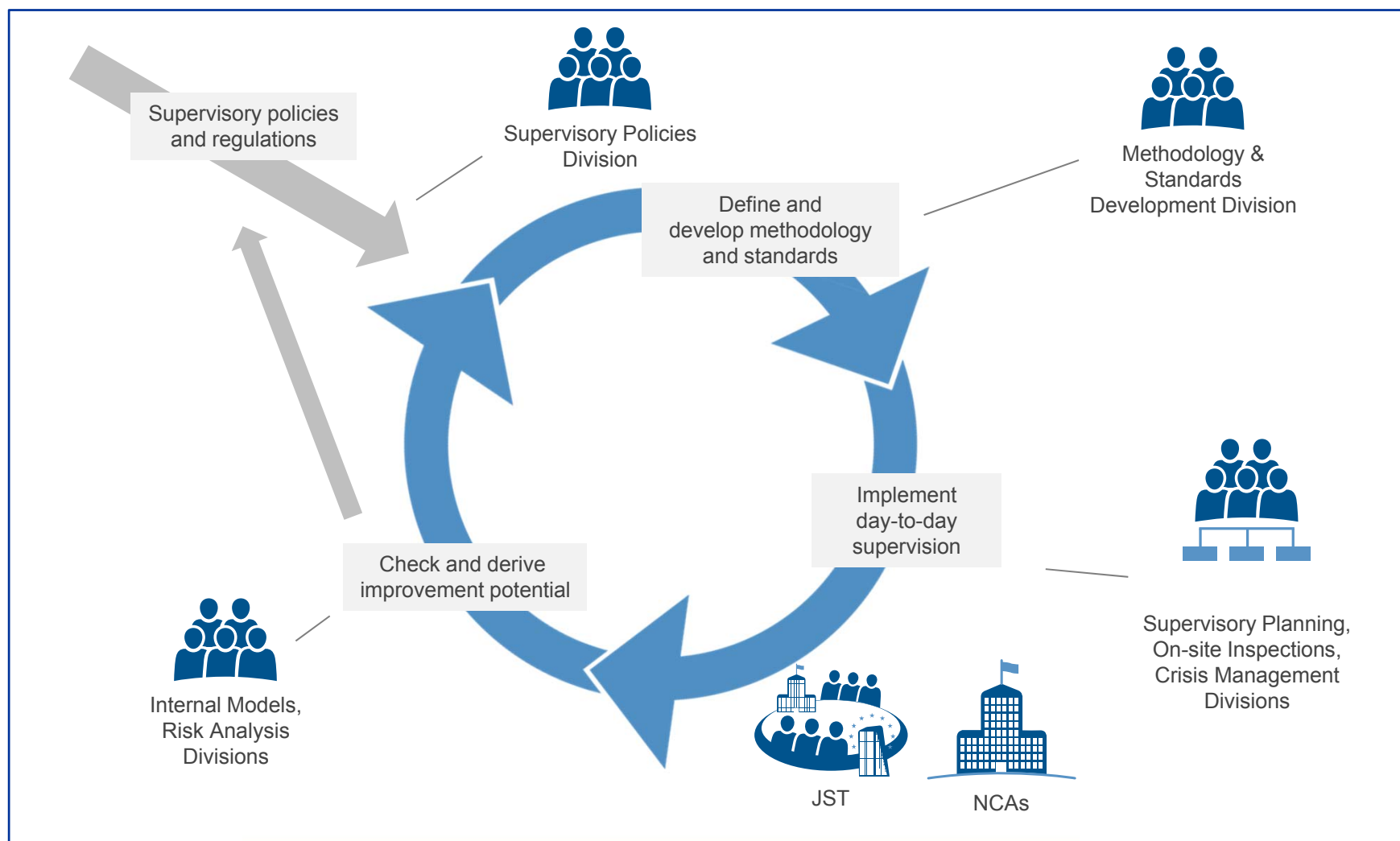
2c Horizontal functions and specialised expertise within the SSM

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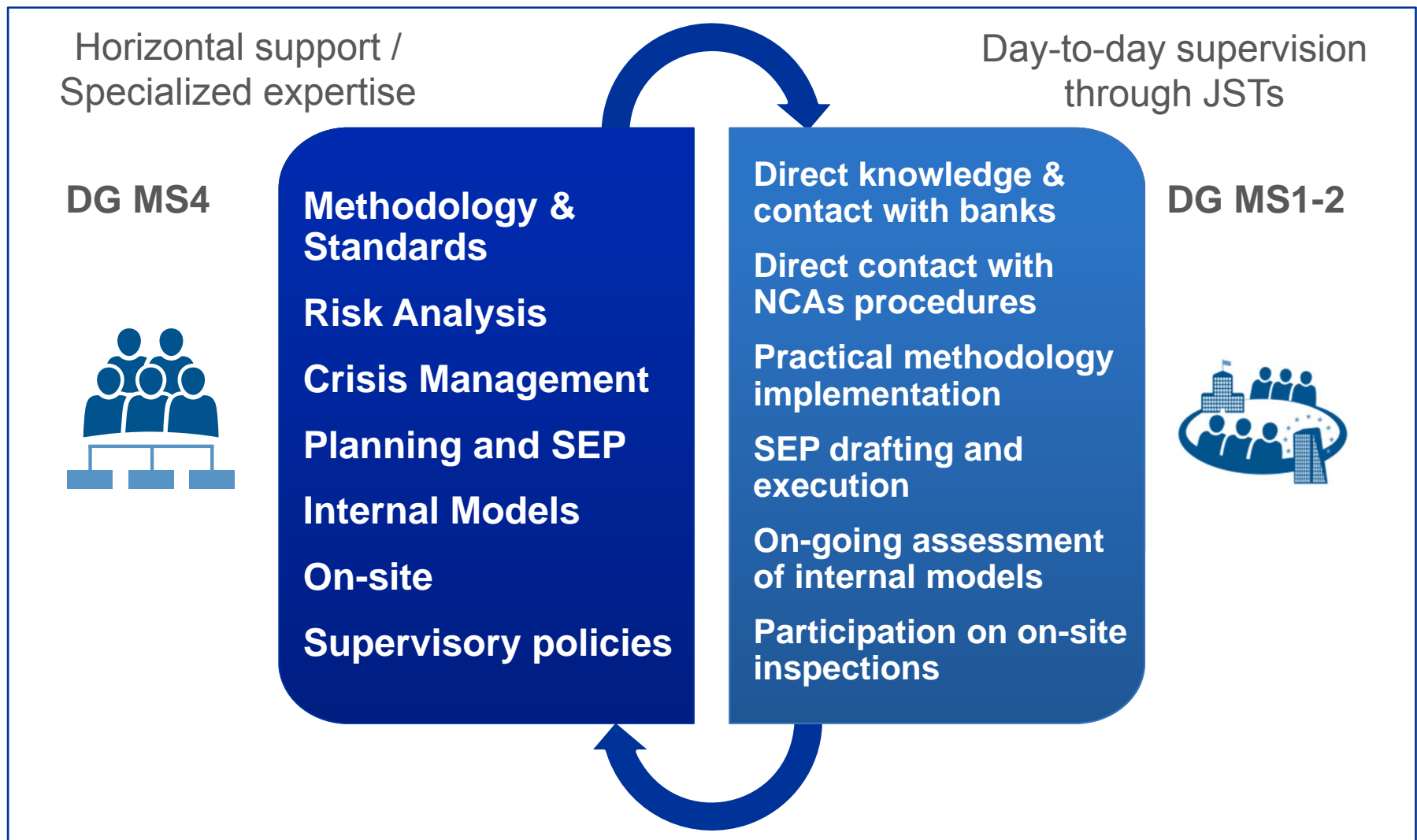
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A comprehensive supervisory cycle - achieving homogenous supervision



Close cooperation between on-going Significant Institutions' supervision and horizontal functions



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SSM achievements in the course of the first year

SSM organisation

- More than 1,000 **SSM-related staff recruited**
- **SSM methodological and legal framework** implemented
- Key supervisory **infra-structures** set up and made operational
- **JSTs** set up and made operational
- **Collaboration with NCAs** operationalised

Supervision

- **Comprehensive Assessment** and supervisory follow-up tasks completed
- **Key risks** within European banking sector identified and supervisory **priorities** defined
- **Supervisory programmes** for 123 SIs defined and implemented for 2015/2016
- First SSM **Supervisory Review and Evaluation Process** (SREP) completed
- **Thematic reviews** on governance & risk appetite, leverage finance and IT Cyber risks security conducted

Harmonisation

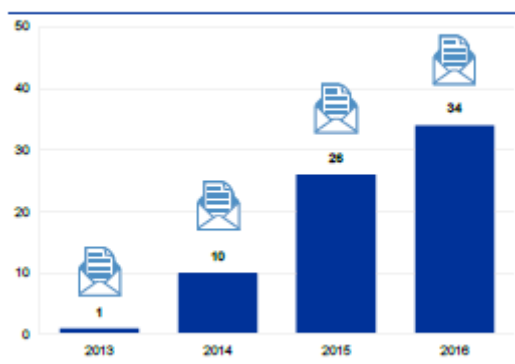
- Harmonised **methodology for SSM SREP** developed and implemented
- Harmonisation of **Options and National Discretions** (ONDs): 150+ ONDs identified, draft ECB policy package on c.120 ONDs prepared
- Official **SSM guidance** on dividend payouts published
- **Uniform supervisory practices** implemented in several areas (e.g. fit & proper assessments)

Scaled-up development in 2016

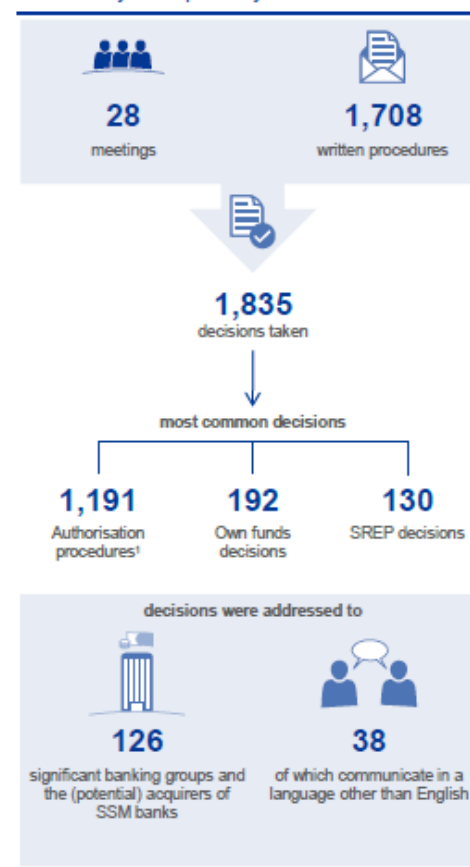
SSM organisation

- Ongoing development of the **institutional structure** with over 300 additional positions approved by the Governing Council
- Participation in 45 **supervisory colleges**
- Extensive **engagement with others externally**, including European bodies, BCBS, FSB
- LSI crisis management cooperation framework
- Enhanced **transparency**: disclosure of aggregate supervisory statistics
- **Cooperation agreements** with other authorities

Replies to questions from Members of the European Parliament increased in 2016



Decisions by the Supervisory Board in 2016



Notes: The numbers in this figure relate to individual supervisory decisions addressed to supervised entities or their potential acquirers and instructions to NCAs on SIs or LSIs. In addition, the Supervisory Board took decisions on a number of horizontal issues (e.g. common methodologies) and institutional issues).

¹) The 1,191 decisions on authorisation procedures cover 2,686 individual procedures (see Section 2.1.2).

Examples of targeted SSM supervisory actions in the course of 2016 and 2017



SSM supervision

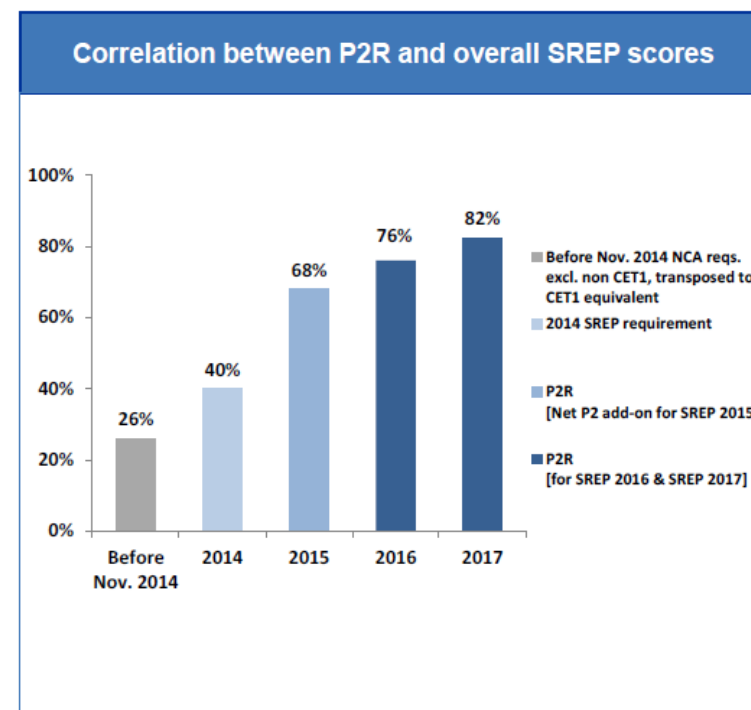
- 2016 **stress test** for euro area banks
- 2017 sensitivity analysis of **interest rate risk in the banking book**
- In depth analysis of **NPLs** and dedicated dialogues
- Continued **improvement of capital adequacy** of banks
- Launch of **SSM-wide review of models** used by banks to determine their risk-weighted assets (TRIM)
- Guidance on **governance and risk appetite**
- Reviews of **IFRS9** and profitability
- ...

Achieving a substantial increase in harmonisation



Harmonisation

- SREP
- Harmonising options and discretions
- Guide to fit and proper assessments
- On-site methodology
- Internal capital and liquidity assessment (ICAAP and ILAAP)
- Recovery planning
- Involvement in EBA and global supervisory fora



Based on banks with a final SREP 2017 decision as of 30 November 2017

Note:
Correlation cannot reach 100% due to the facts that risks can also be addressed by other measures e.g. qualitative measures

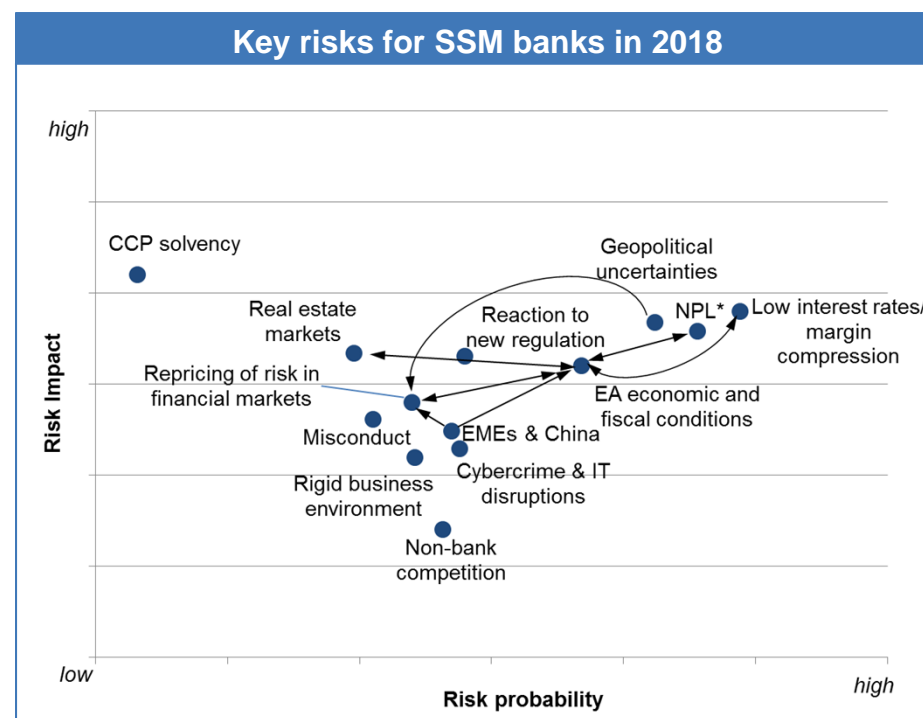
https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.srep_methodology_booklet_2017.en.pdf

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Key risks for SSM banks in 2018

- Continued period of **low interest rates** puts pressure on interest rate margins challenging banks' profitability.
- NPL** ratios declined over the last year, however the number of high-NPL banks in the euro area remains substantial.
- While **euro area economic and fiscal conditions** improved, some countries still face debt sustainability concerns
- This is particularly relevant against historically high levels of **geopolitical uncertainty** which could lead to a sudden repricing of risk in financial markets
- Political uncertainty around Brexit creates additional challenges, including business continuity and transitional risks, as well as macroeconomic and regulatory risks.

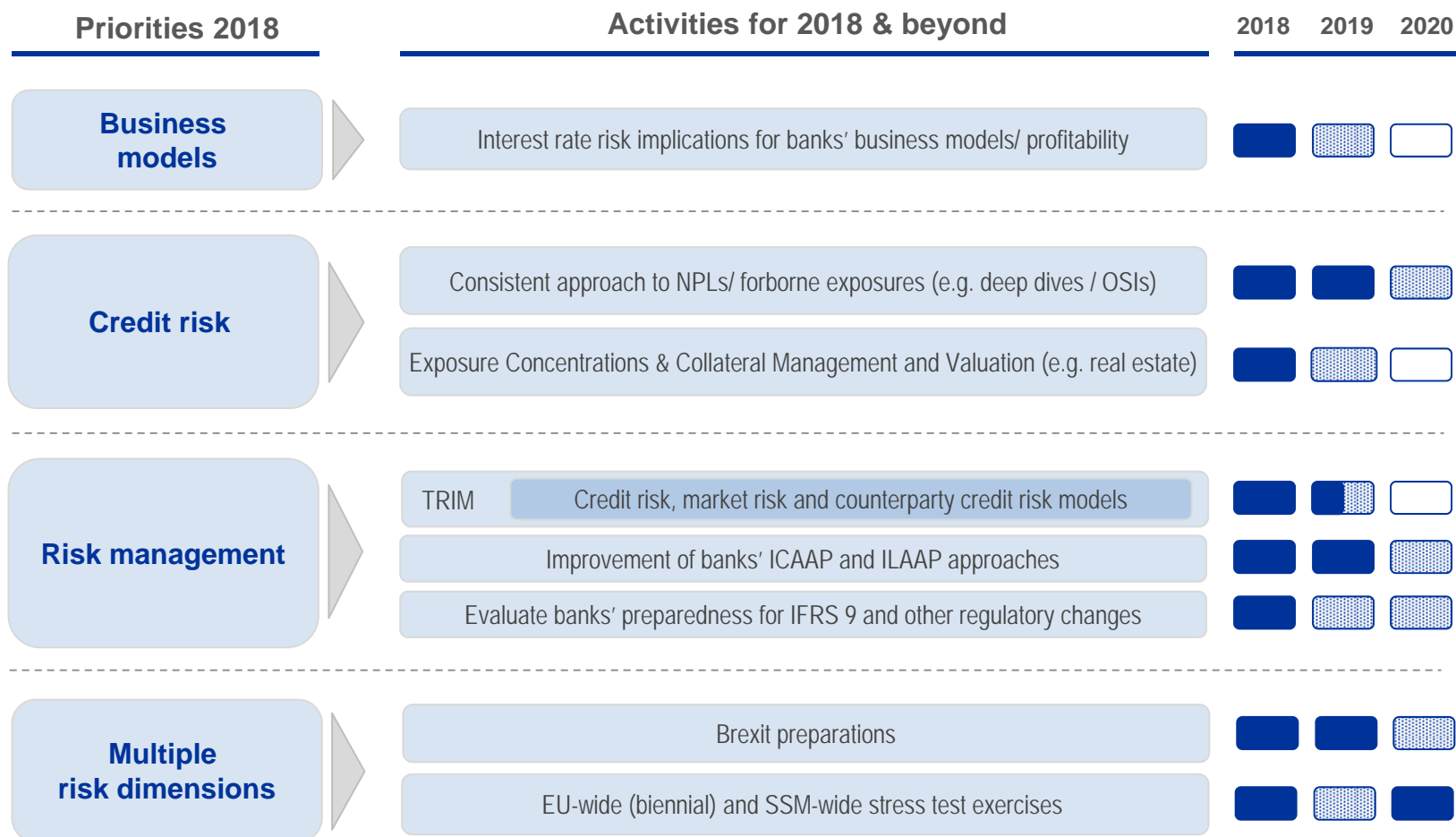


Source: ECB and national supervisory authorities.

Note: Risks are not independent and might trigger or reinforce each other – indicated by arrows on the chart which represent the main transmission channels.

(*) NPLs: this risk driver is only relevant for euro area banks with high NPL ratios

SSM Supervisory Priorities for 2018 and beyond



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The SSM: looking back and forward

- The SSM is a **truly integrated system** based on cooperation between the national supervisors and the ECB - which was set up in a short period of time
- SSM approach aims at building **intrusive, tough and fair supervision**
- Since its start in 2014, the **SSM has played a decisive role** to increase banks' resilience and harmonise supervisory practices across the euro area
- In its fourth supervisory cycle, European banking supervision **continues to make steady progress** on its existing and newly identified priorities.
- In 2018, key SSM areas of supervisory focus remain **banks' business models, credit risk** and **risk management**. Major initiatives such as **TRIM** are the most visible, but certainly not the only areas of SSM activity.
- The **SSM is a journey**. The objective is clear: a stable, competitive and efficient banking sector.

Questions?



More information on the functioning of the SSM as well as its main supervisory processes and methodologies can be found in the [SSM Guide to Banking supervision](#).