The first six months of SSM from a supervised bank perspective

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Main messages

1. BBVA has a **global presence** that involves a **constant dialogue** with different supervisors across the globe, being the SSM the supervisor at a consolidated level and as such the Chair of our supervisory college.

2. The SSM represented a **decisive step in the building up of the banking union** and will ensure the **level playing field** across the euro zone, but there are still some doubts remaining.

3. A new supervisory culture will have to be built assuming the **best practices from different participating Member States** and not from just one Member State.

4. **DGIV will play a key role** in the designing of this new supervisory culture.

5. **New or enhanced supervisory tools** were put into practice since the launch of the SSM and their implementation will be a “learning by doing process”.

6. **2015 SREP decision (to be implemented in 2016)** will represent the real kick off of the SSM as a supervisor.
BBVA has a broad scope of supervisors

- 11 + 20 countries
- 7,371 branches
- 22,104 ATMs
- 108,770 employees
- € 652 billion in total assets
- 51 million customers

As of December 2014

*Internal computation. FDIC does not publish it

** Texas area

Spain: Other domestic sector and public sector data as of November 2014.
Mexico: data as of December 2014.
South America: data as of November 2014 for the following countries: Argentina, Chile, Colombia, Paraguay, Peru, Uruguay and Venezuela

The SSM is the new chair of our supervisory college
SSM is a new fundamental pillar of the Banking Union...

...in fact, now, there is much more Union between Banks than ever before
Up to the launch of the SSM the ECB has done its homework...

- **Jun’ 12**: Prime ministers of eurozone countries decided to assign the ECB supervisory duties.
- **Sep’12**: European Commission presents a proposal of the SSM.
- **Dec’ 12**: Comprehensive Assessment started.
- **Oct’13**: European Commission presents a proposal of the SSM.
- **Dec’13**: SSM Regulation 1024/2013 enters into force.
- **3 Nov’13**: Danielle Nouy is appointed Chairwoman of the SSM.
- **Feb’14**: Sabine Lautenschläger is appointed Vice-Chairwoman.
- **4th Nov’ 2014**: SSM started.
- **Oct’14**: List of significant institutions is released together with the members of the Administrative Board of Review.
- **Sep’14**: Comprehensive Assessment results were published.

**Setting up of the SSM Project**

- **2012**: Setting up of the SSM Project
- **2013**: SSM Regulation 1024/2013
- **2014**: SSM Framework R. 468/2014. ECB and NCA relations
Transitional period takeaways

1. **ECB had not supervisory powers** and had to build its internal structure, hire staff, etc

2. **Constant dialogue** among big financial institutions to learn from experience of other banks (i.e.: EBF, AFME, etc)

3. **EBA publication of SREP Guidelines**

4. **Analysis of SSM Regulation and ECB legal acts**

5. **Public hearings**

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**Sept 1:** Mailbox for daily contacts and designation of a contact person (Art 35 SSM Framework Regulation)

**Jun’14**

**Sept’14**

**Oct’14**

**Nov’14**

**Introductory meetings with JST coordinators**

**BBVA appointed as significant institution** (Art 147 SSM Framework Regulation) (Art 6.4 SSM Regulation)

**Decision on language** (Art 24 SSM Framework Regulation)

**Oct 26:** Comprehensive assessment results

**Nov 14:** Paper based correspondence conditions. Five letter code ESBBVA to be used

**Nov 20:** Nominations and contact detail of fee debtors (Art 16.2 and 16.3 Regulation on Supervisory fees)

**These months the SSM have gained knowledge of financial institutions under supervision**

**ECB had no supervisory powers**

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...but so has BBVA, not only before the launch...
...but also after the launch of the SSM and currently...

Dec' 14

Dec 9: AQR findings and results received signed by DGI and sent to CEO

Dec 18: Draft annual supervisory decision signed by SSM Chairwoman (Art 16 SSM Regulation)

Jan' 15

Jan 31: AQR remedial actions and prudential and/or accounting adjustments

Jan 28: Dividend distribution policies recommendation

Jan 15: Communication of first on site inspections submitted to the Chairman and signed by DG1 (Art 12 1024/2013 Council Regulation and Supervisory Examination Program adopted by the ECB on January the 5th 2015, art 143-146 EU Regulation 468/2014)

Jan 27: Reception of letter informing existing supervisory powers

Feb 9 and 11: Submission of request to include profits in CET1 (Art 26 EU Regulation 575/2013)

Feb 20: Reception of final decision on Pillar 2 (Art 16 Council Regulation 1024/2013)

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March’ 15

March 11 and 16: Kick off of thematic reviews

April’ 15

April 8. Fit & Proper of a new member of the Board (Art 4 SSM Regulation, art 93 468/2014 Regulation and art 24 LOSS)

April 30. ICAAP and ILAAP Board approval

Meetings with senior management

After November 2014

Jan 28: Dividend distribution policies recommendation

Jan 27: Reception of letter informing existing supervisory powers

March 11 and 16. Kick off of thematic reviews
Now facing the bulk of the SREP...

...running the RAS
SREP: main supervisory tool

Ongoing supervision
(Supervisory Examination Program)

Business Model Analysis
Viability and sustainability of the business model (12 months and 3 year analysis)

Governance
Governance and risk management

Capital assessment
Block 1 RAS
Block 2 ICAAP benchmarking
Block Stressed ICAAP benchmarking

Liquidity Assessment
Block 1 RAS Tailored stress
Block 2 ILAAP-

Pillar 2 capital requirements
Pillar 2 liquidity requirements

Supervisory measures

Need to understand the methodology

SREP assessment: holistic approach

New in some jurisdictions
Supervisory measures: quantitative and qualitative

A. Quantitative measures

Risk reduction
- Limitation to activities, deleverage
- Inherent risk reduction
- Additional capital
- Supervisory adjustments (RWA, EL, deductions)
- Limitations to dividend distribution and coupon payment to AT1

Capital requirements
- Additional capital
- Supervisory adjustments (RWA, EL, deductions)
- Limitations to dividend distribution and coupon payment to AT1

Liquidity requirements
- Specific policies to provisions or RWA to certain assets
- Specific liquidity requirements

B. Qualitative measures

Governance, organization and compliance
- Review of processes, IT, etc
- Plan to fulfill the requirements of a Directive
- Limits to variable remuneration
- Change of board members

Reporting requirements
- Additional reporting requirements
- Complementary information
There are different uncertainties that need to be unveiled...

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<td>Disclosure of SREP decisions, market pressure and some countries outliers</td>
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<td>ILAAP</td>
<td>Application of methodology across countries</td>
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<td>Business Model Analysis</td>
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<td>Fit and proper assessment</td>
<td>Relation of the SSM with the Board to be defined</td>
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<td>Recovery and Resolution plans</td>
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<td>Supervisory practices</td>
<td>i) Potential heterogeneity in the functioning of JSTs; ii) Application of undisclosed methodology and iii) national discretions harmonization</td>
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<td>Review of internal models</td>
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<td>Governance</td>
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<td>Stress Testing</td>
<td>2016? Diversification benefits?</td>
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<td>Others</td>
<td>Liquidity: Different national approaches Processes: i) approval and computability of AT1 and T2; purchases in third countries; iii) inclusion of benefits in CET1</td>
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...to fully understand the 2015 SREP decision

Q1: Preparation (Ready)
1. Data gathering for COREP/FINREP Templates
2. Discussion with the SSM and within the industry
3. Short Term Exercise

Q2-Q3: Evaluation (Steady)
1. JSTs to evaluate
2. Supervisory colleges
3. Draft Decision

Q4: Decision (Go)
1. Supervisory Dialogue
2. Final decision

Uncertainties of the process

1. How to ensure consistency of decisions across the SSM?
2. Communication process? What to expect? A letter?
3. How to mix quantitative and qualitative information?
4. Nature of Pillar 2 decisions? Relation with other buffers?
BBVA new organization to face this challenge...
Defining BBVA single point of entry vis-à-vis the supervisor

Organizational change

1. Creation of Global Supervisory Relation unit in 2013
2. Technical Supervisory Group
3. Opening of the Frankfurt Office

Information requirements

A. COREP
B. FINREP
C. STE
D. QIS

Need to develop an operational and strategic dialogue

Global Supervisory Relations

Capital Measuring
- Capital ratios, measuring and monitoring
- Regulatory capital submitted to the regulators
- Quantification and impacts of the new capital regulations.
- RWA Management and optimization
- Analysis of solvency, Capital forecasting and benchmarking

Liquidity Measuring
- Elaboration, measuring and monitoring of the liquidity regulatory requirements
- Submit liquidity regulatory information to supervisors
- Analysis of Group’s liquidity and impact of liquidity regulatory framework. Definition of homogeneous criteria of liquidity
- Liquidity forecasting, metric sensitivity analysis, stress testing of liquidity and recovery
- Monitoring and optimization of liquidity indicators

Supervisory Relations & Regulatory Policies
- Solve and refer inquiries to supervisors
- Coordinate the implementation of new banking regulation
- Relationship with national banking supervisors.

Supervisory & Regulatory Frankfurt
- Develop and strengthen the dialogue process with the SSM
- Link between the bank and the monitoring team of the ECB
- Regulatory projects monitoring
- BBVA representation in forums related to supervision and regulation
- Link between BBVA areas and other ECB areas
Main conclusions
Conclusions

1. ECB and NCA have done a remarkable effort to turn the SSM into a reality. The creation of the SSM and running the comprehensive assessment at the same time was a tremendous challenge.

2. This year represents a transitional year when the SSM and financial institutions are learning by doing. As such still some uncertainties remain.

For financial institutions such as BBVA a constant dialogue is required to fully understand the needs of the supervisor. In this regard, a proper communication and full transparency are of utmost importance.

3. Banks must understand the supervisory methodology developed by the SSM embedded in the supervisory manual and supervisory regulation. Even if 2015 is and has been a transitional year some clarity is more than welcome for the coming future above all in the SREP process and decision.

4. Going forward the SSM will have to ensure a proper harmonization in supervisory practices within the SSM and the highest supervisory standards vis-à-vis other supervisors.
Thank you!

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