



EUROPEAN CENTRAL BANK

BANKING SUPERVISION

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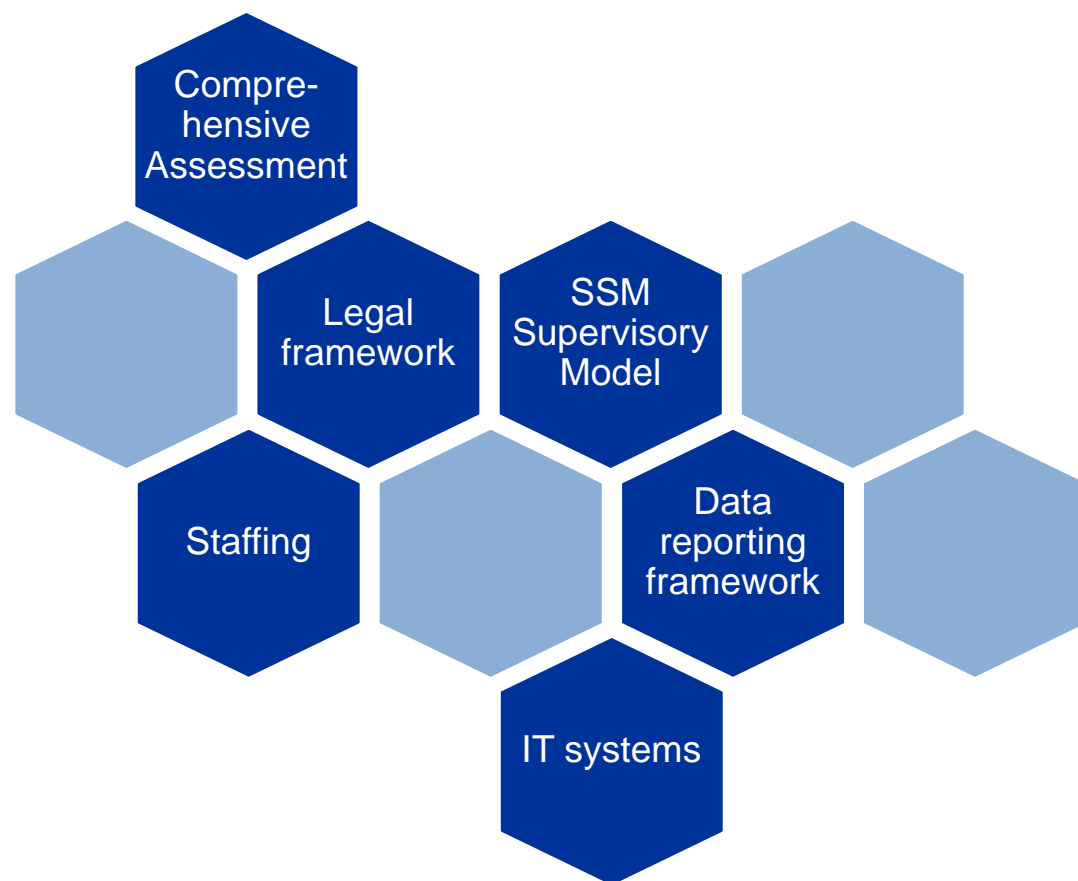
Director General Micro-Prudential  
Supervision III

# Set-up and start of the SSM

Conference on Banking Union

Frankfurt am Main, 4 May 2015

Achievement of key milestones laid the foundations for the start of the SSM operations on 4 November 2014



- **First preparatory work** for the SSM initiated following euro area summit of 29 June 2012
- Entry into force of SSM Regulation on 3 November 2013  
→ **one transitional year** to finalise preparations for the operational start

# Main outcomes of the Comprehensive Assessment

1.

## Transparency on Asset Values

- AQR gross impact on asset carrying values of **€48 billion**
- **€136 billion increase in non-performing exposure** identified in the AQR
  - **Greatly enhanced transparency** through disclosure of granular comparable data

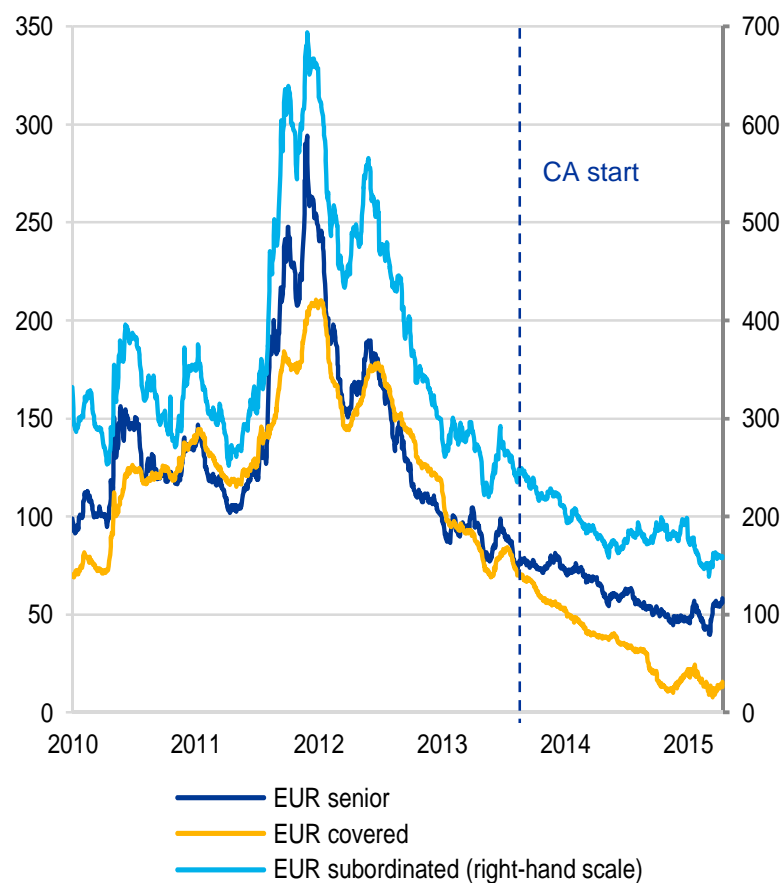
2.

## Higher required capitalisation

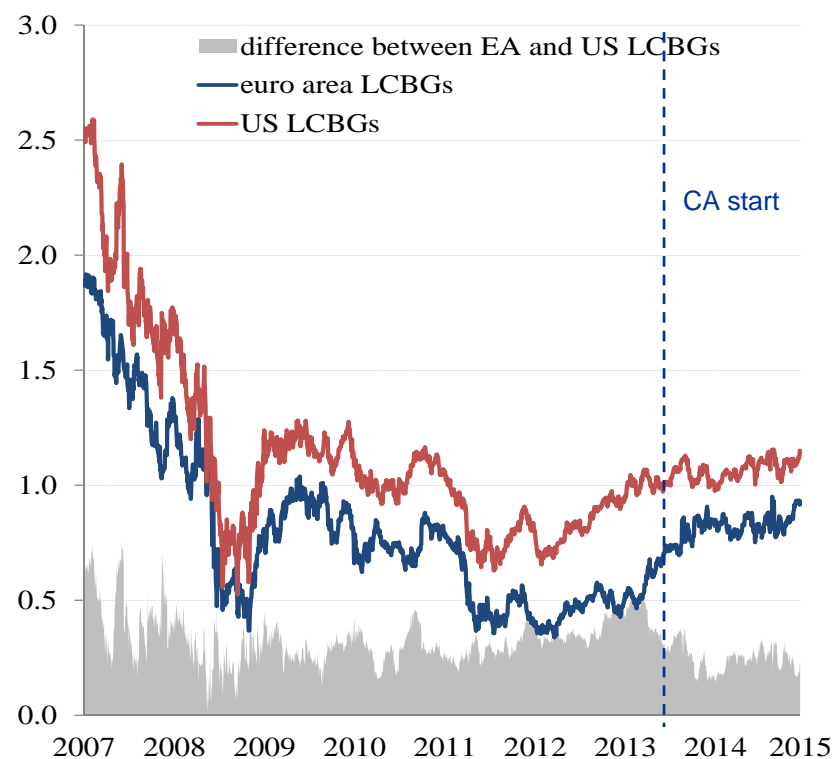
- Combining AQR and stress test resulted in:
  - **€263 billion capital depletion** over three-year horizon under adverse stress test scenario
  - Median **4% reduction of the CET1 capital ratio**
- **€24.6 billion capital shortfall** across 25 participant banks

## Positive developments in equity and debt markets since CA start

**Spreads on banks' senior debt, subordinated debt and covered bonds**  
Jan 2010 – May 2014; basis points



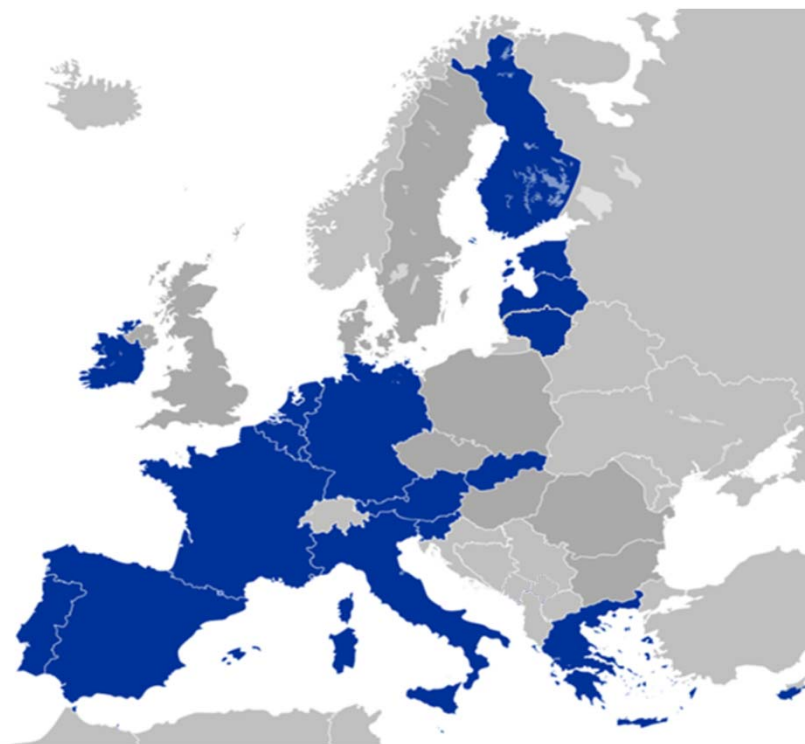
**Price-to-book ratios of large and complex banking groups (LCBGs)<sup>1</sup>**  
May 2007 – Apr 2015; ratio



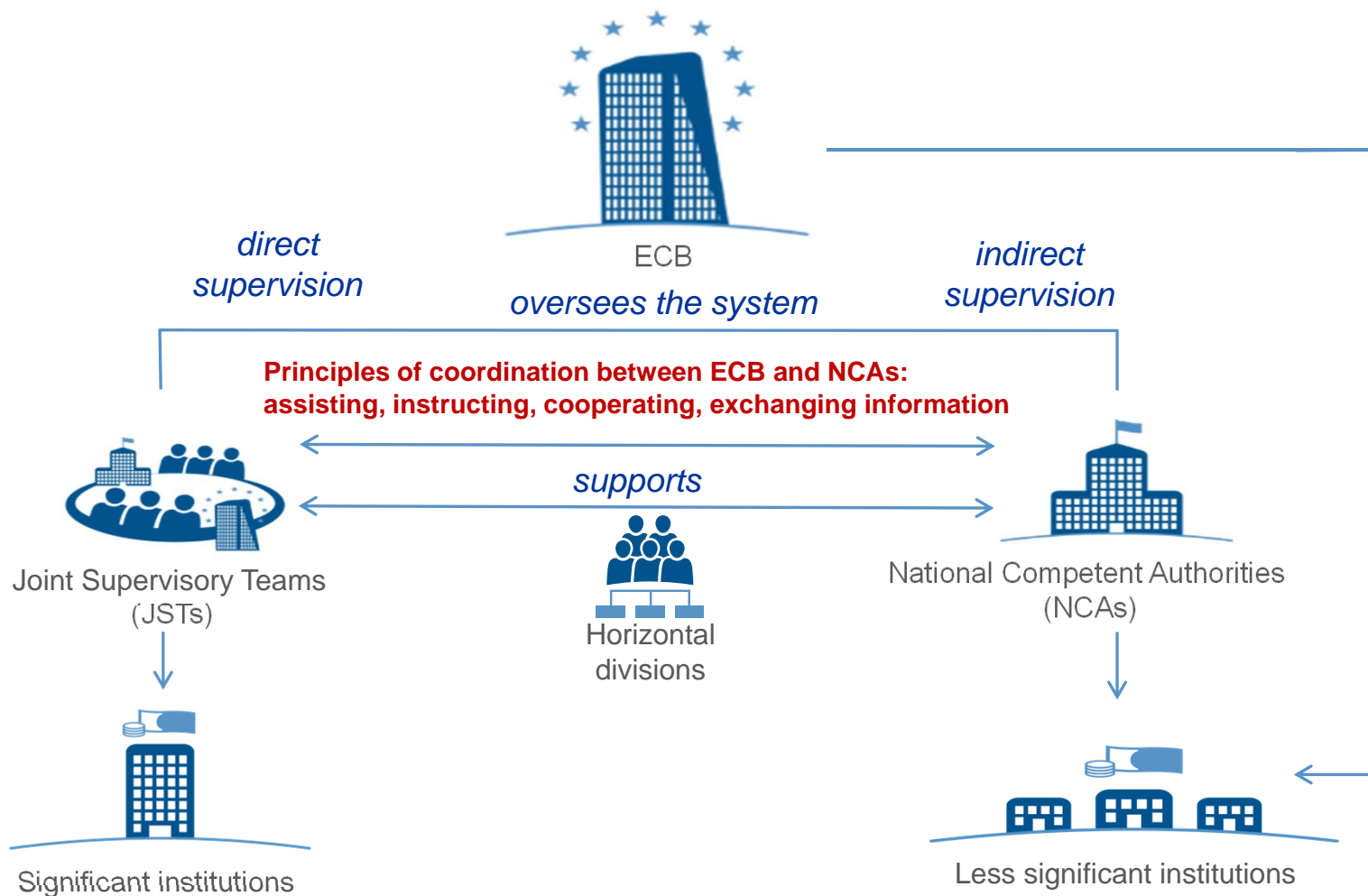
<sup>1</sup> LCBGs are a sub-sample of the "significant institutions" directly supervised by the ECB

### Overview of the SSM scope

- Total assets: ~ **EUR 26,000 bn** (for comparison: USA USD 14,700 bn)
- Direct supervision of ~ **120 significant institutions** (comprising ~ 1,200 individual institutions) and ~ **3,400 less significant institutions**
  - Total assets of the significant institutions amount to ~ EUR 21,000 bn, those of LSIs to ~ EUR 5,000 bn
  - 9 global systemically important banks (G-SIBs) are headquartered within the SSM



## The SSM functions as one integrated system of national and ECB supervisors



### Overview of SSM key activities since 4 November

#### Direct supervision

- Follow-up to the **Comprehensive Assessment**

- **SREP**: implementation of 2014 decisions, preparation of 2015 process

- Strategic and operational **planning** for 2015

#### Horizontal expertise

- Establishment of **methodologies** for all horizontal and specialised services

- Execution of **horizontal tasks** (authorisations, internal model validation, on-site inspections, policy development)

#### Indirect Supervision

- Establishment of the framework for **indirect supervision** of LSIs

- Applying the **tools** for indirect supervision

### CA follow-up: ensuring adequate remedial actions at the bank level

#### ***Capital Plans***

- Submission within 2 weeks after finalisation of the CA
- JST assessment of plans' feasibility, viability and credibility → outcome feeding into 2014 SREP decision
- Implementation of measures within 6 or 9 months, monitored by the JSTs

#### ***SREP Decisions***

- Pillar 2 measures based on two complementary sets of findings:
  - I. Issues identified in ongoing supervision throughout the year and
  - II. Findings stemming directly from the CA (quantitative & qualitative)

#### ***Financial Statements***

- CA was a prudential exercise, but AQR findings included some with accounting implications
- Several discussions with major audit firms held post CA
- JSTs monitoring incorporation of findings in accounts



# SREP: implementation of 2014 decisions and preparation of the 2015 process

***SREP aims:*** Ensuring that banks' capital and liquidity, but also their internal governance, strategies and processes, are adequate to ensure a sound management and coverage of their risks.

**2014**

- 2014 SREP decisions are the result of an exceptional, **one-off procedure**:
  - SREP decisions largely based on the quantitative and qualitative **results of the CA**
  - Conclusions from the **SREP carried out by the NCAs** largely incorporated as part of the general handover

**2015**

- 2015 SREP decisions will be based on a different process:
  - Application of a **common methodology**, described in the Supervisory Manual
  - SSM SREP encompasses: **RAS**, review of banks' **ICAAP and ILAAP**, and capital and liquidity **quantification**

# Strategic and operational planning for 2015

- **SREP as a key input**, directly impacting the range and depth of off-site and on-site activities for a given bank
- **2015 Supervisory Examination Programme (SEP)** for each significant bank define the main supervisory activities to be carried out, covering:
  - ongoing supervisory activities by the JSTs
  - on-site inspections
  - internal model investigations
- Planning follows a **risk-based and proportionate approach**, with engagement levels depending on the risk score, size and complexity of the bank
- **Supervisory priorities/work plan for LSIs**
- **Thematic reviews** for both SIs and LSIs

# Establishment of methodologies for all horizontal and specialised services

### *Horizontal and specialised divisions*

Planning and Coordination of SEP

Methodology and Standards Development

Risk Analysis

Internal Models

Crisis Management

Supervisory Policies

Authorisations

Enforcement and Sanctions

Centralised On-site Inspections

Supervisory Quality Assurance

### *Overall responsibilities*

- Fostering **harmonisation** of supervisory approaches
- Promoting an **intrusive approach** to banking supervision
- Intensifying **cooperation and communication** inside and outside the SSM

## Execution of horizontal tasks

### *Examples of specific activities*

- **Common procedures** submitted since 4 November 2014:

	Licensing	Lapsing	Withdrawal (NCA)	Withdrawal (ECB)	Qualifying holdings	Fit and proper	Passporting
Common procedures submitted to ECB	7	2	3	-	9	115	34

- Conduct of a stocktake of banks' use of **internal models** (IM) to calculate own funds requirements (OFR):

Type of risk	Number of banks using Internal Models	% of total OFR	% of OFR computed with IM per risk category
Credit	68	84.1%	53.3%
Operational	21	9.4%	46.4%
Market	37	5.1%	59.8%
CVA	9	1.4%	39.2%

- Conduct of **on-site missions** with inspection teams made up of ECB and NCA staff
- Active participation in **European and international fora** related to supervisory standards and policies

# Establishment of the framework for indirect supervision of less significant institutions

## Indirect Supervision

### Supervisory Oversight

- Promote best supervisory practices and develop common standards
- Ensure consistency of supervisory outcomes

### Institutional and Sectoral Oversight

- Oversee sectors and country-specific institutional arrangements
- Exchange information with NCAs on high-priority LSIs
- Participate in crisis management

### Analysis and Methodological Support

- Prepare methodologies for LSI supervision (e.g. risk-based prioritisation of banks, SREP application)
- Analyse common sources of risk

# Applying the ECB's tools for indirect supervision

*Tools at the ECB's disposal :*

