



EUROPEAN CENTRAL BANK

EUROSYSTEM

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European Banking Supervision:

Benefits and Challenges

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European Banking Supervision: Benefits and Challenges

1 Evolution of European Banking Union

2 Functioning of the Single Supervisory Mechanism

3 Financial Stability and Integration

Establishment of the Single Supervisory Mechanism -SSM

- The origins of the SSM come from the hard lessons learned during the recent global financial crisis.
- In part, the crisis was a result of an underestimation of risks and excessive risk-taking, which led to the question of whether the regulatory and supervisory framework needed to be adjusted.
- The creation of the **Single Supervisory Mechanism** is a key milestone in the reinforcement of the institutional framework of the euro area. It is one of the key components of the EU Banking Union, along with the **Single Resolution Mechanism**, and later a **Single Deposit Guaranty Scheme**.

Objectives of European Banking Supervision

- ✓ Ensure the safety and soundness of the European banking system
- ✓ Enhance and harmonize supervisory practices
- ✓ Increase financial integration and stability
- ✓ Promote sustainable growth
- ✓ Improve monetary union functions
- ✓ Help breaking negative feedback loops between governments and banks

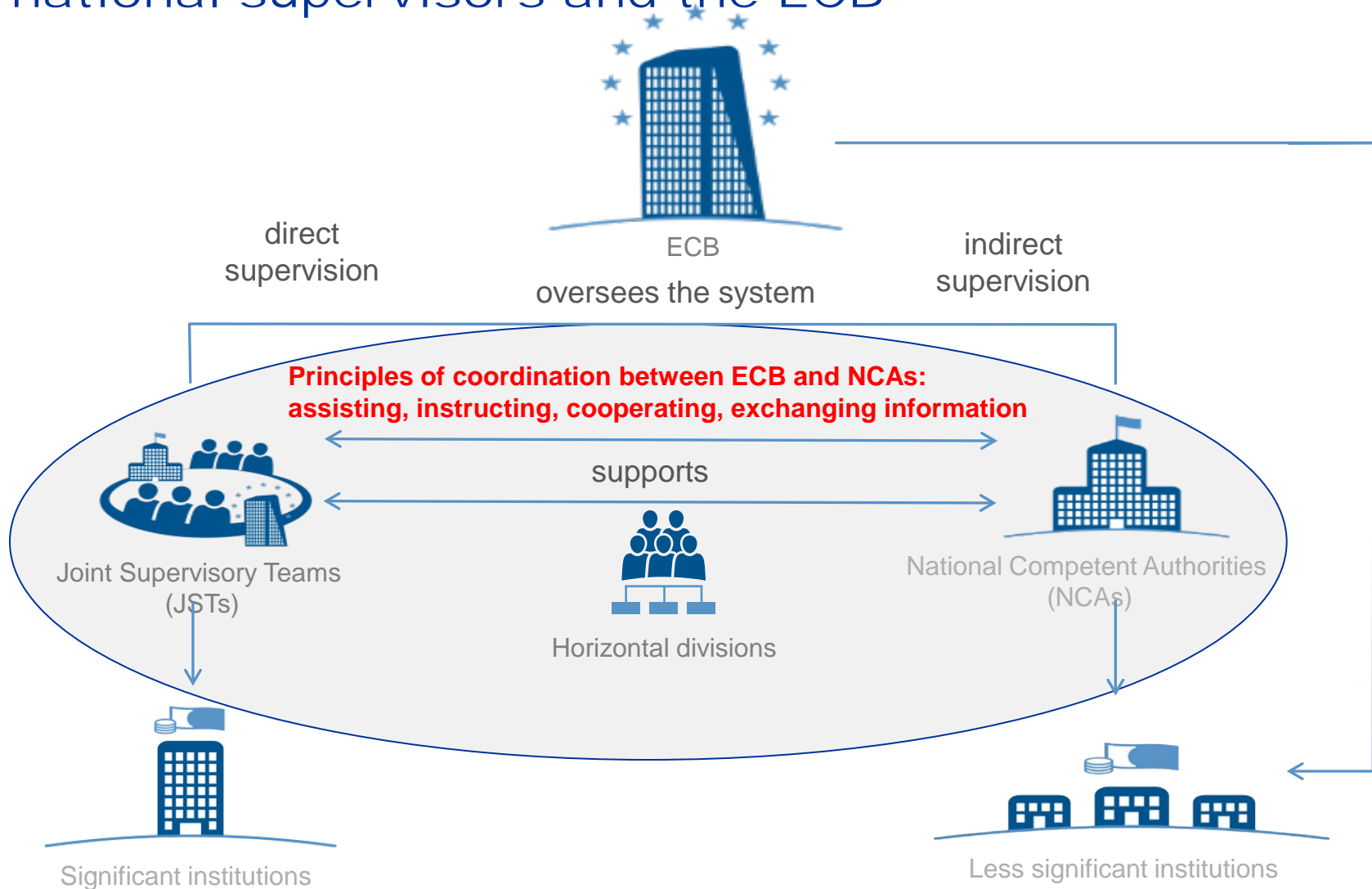
Since 4 November 2014 the SSM is fully operational.

SSM's European Mandate

- The ECB now **directly** supervises **123 banking groups (comprised of 1,200 credit institutions)** in the 19 countries of the euro area, covering more than 85% of the euro area total banking assets.
- **Indirectly**, via national supervisory authorities, **about 3,500 smaller additional institutions are supervised by the SSM.**
- The SSM has a **wide ranging *European* mandate** and the authority (in cooperation with the national supervisors) to:
 - Grant or withdraw banking licenses
 - Conduct supervisory reviews and on-site inspections;
 - Assess banks' acquisition and disposal of qualifying holdings;
 - Ensure compliance with EU prudential rules;
 - Set high capital requirements to mitigate financial risks.

2. Functioning of the SSM

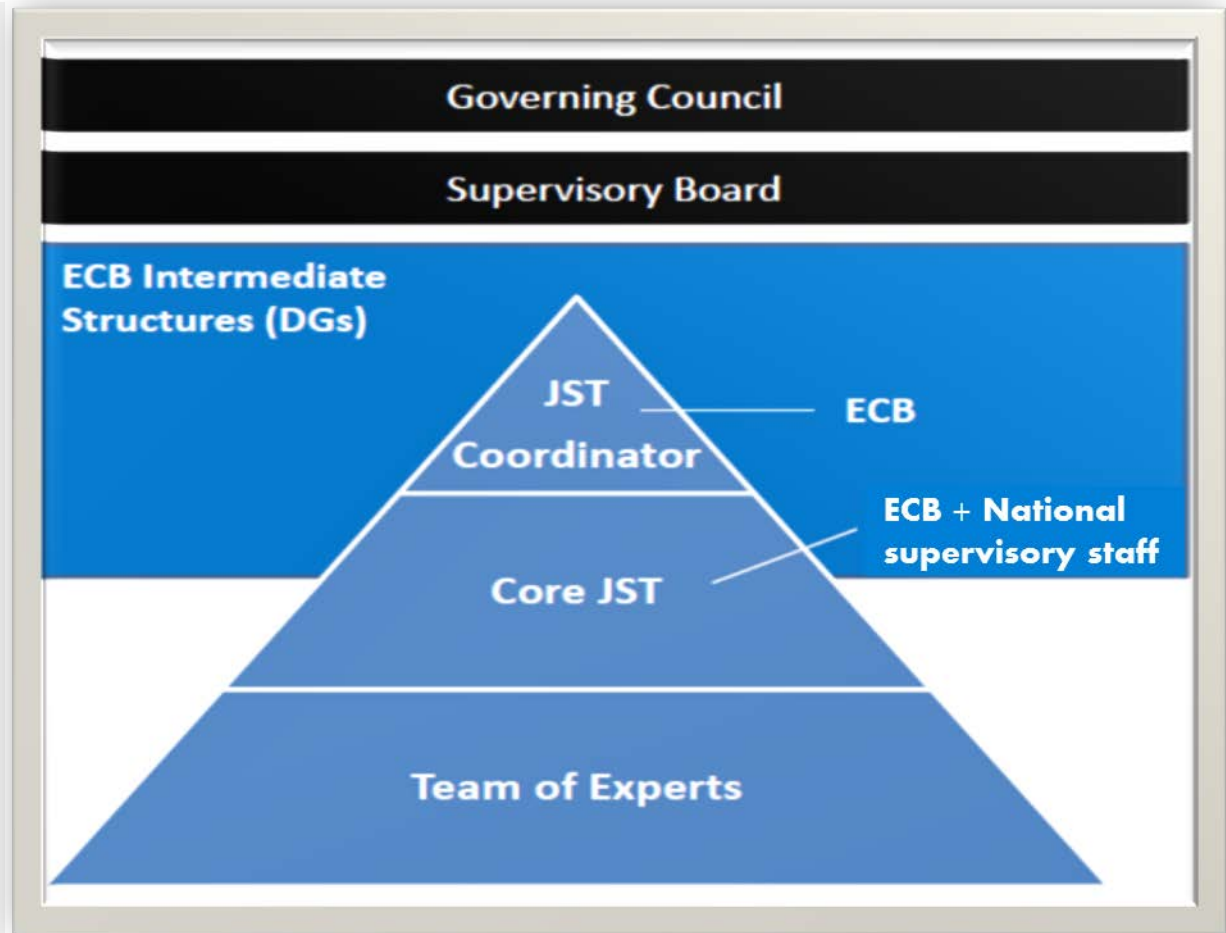
An integrated system based on cooperation between the national supervisors and the ECB



2. Functioning of the SSM

Significant banks supervision by Joint Supervisory Teams - JSTs

- Established for each of the 123 significant banking groups
- Comprised of staff from ECB and national supervisors
- Responsible for day-to-day supervision and for implementing decisions of Supervisory Board / Governing Council
- Size and composition of JSTs vary between institutions



Comprehensive Assessment (CA): Precursor for the work of the SSM

- **It had unique features: an Asset Quality Review (AQR) and a stress test:**
 - Detailed methodological manuals were disclosed;
 - Several thousand experts involved, including about 5,000 from independent private firms;
 - More than 800 individual portfolios and the credit quality of 119,000 borrowers was analyzed;
 - Unprecedented transparency regarding banks' balance sheets, on top of the final results;
 - Before publication of final results, banks took a significant amount of frontloaded measures to strengthen their balance sheets.
- **The success of the exercise was due to the excellent cooperation between the national supervisors and the ECB.**

Going forward

- **The CA provided insights for supervision going forward, and permits the comparison of banks across euro area countries.**
- **The JSTs priorities include:**
 - Implementing all the lessons learnt during the CA for all the banks involved in the exercise;
 - Assessing and comparing the quality of the capital of the significant banks;
 - Monitoring banks' trajectory to being fully compliant with EU regulation.
- **Those elements are being taken into account for the Supervisory Review and Evaluation Process (SREP) and additional supervisory measures.**

Cooperation with international standard setters

- The ECB is **the largest supervisor in the world** and will be a **strong member of the European and international committees and fora** (European Banking Authority, Basel Committee, Financial Stability Board, etc.)
- The ECB supports the development of a **more harmonised European and international framework.**
- The ECB **cooperates closely with the EBA and applies its single rule book and single supervisory handbook.**
- The SSM will also **actively contribute to the improvement and harmonisation of the European regulation** by:
 - Deciding about the (too numerous) national options and discretions provided in the CRD4/CRR, and
 - conducting or participating in peer reviews, surveys and impact studies, where needed.

International cooperation with non-SSM Supervisors

- The ECB applies **the EU framework for cooperation with other supervisors.**
- **The colleges of supervisors remain the key tool for cross-border supervision of credit institutions.** The ECB plays a strong role in those colleges:
 - as home supervisor of the SSM banks, or
 - as host supervisor for the banks from countries outside of the euro area, either from European countries (e.g. HSBC) or from non European countries (e.g. USA).
- The ECB already makes use of the existing cooperation agreements for cooperation with non European countries.

Conclusion

- **The SSM aims at building a new banking supervisory approach in Europe: The SSM aims at being a tough and fair supervisor.**
- **The Comprehensive Assessment provided unprecedented transparency and deep knowledge of SSM banks. All quantitative and qualitative findings will be used and will serve as a basis for the new supervision.**
- **The SSM is an integrated system based on cooperation between the ECB and the national authorities, to deliver a European supervision, without national bias.**
- **The ECB closely cooperates with its peers, in particular within the EU, and is eager to be a strong actor, at the European and international levels, to promote the best supervisory practices and regulatory convergence.**