



EUROPEAN CENTRAL BANK

EUROSYSTEM

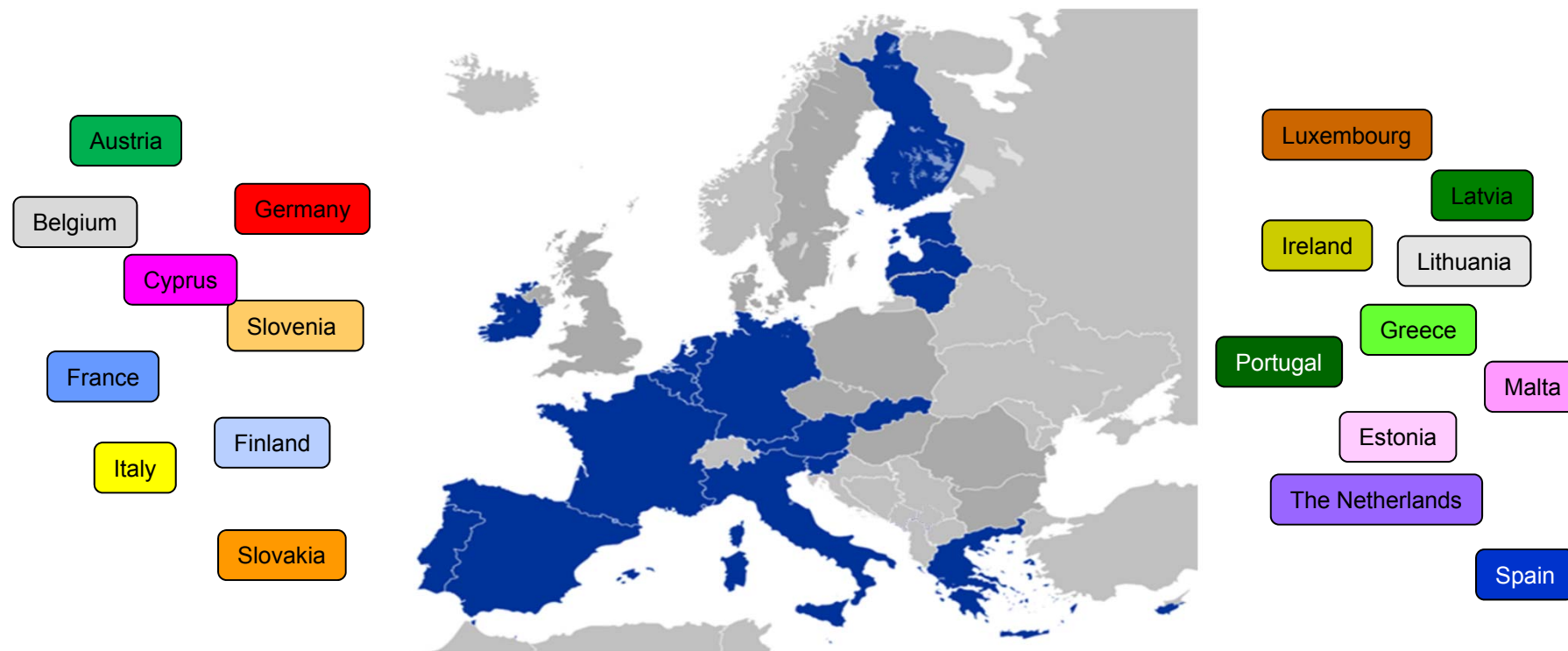
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The Single Supervisory Mechanism (SSM): Benefits and Challenges

International Center of Monetary and Banking Studies (ICMB)

Geneva, 21 April 2015



- 19 countries
- Total banking assets*: ~ EUR 26 trillion/USD 30 trillion to be compared to US banking assets: ~ EUR 12.9 trillion/USD 14.7 trillion.
- Supervising ~ 5,000 institutions, out of which 123 “significant banking groups”, representing ~ EUR 21 trillion of total banking assets

* Exchange rate EUR/USD of 18 Feb. 2015

SSM – what has been put in place?

- **An integrated system comprised of national supervisors and ECB**
- **An enhanced supervisory approach based on lessons learnt from the financial crisis**
- **Three key benefits: stable banking system, safer deposits, confidence**
- **An effective operating structure**

1	The SSM - a new departure for Banking Supervision
2	The functioning of the SSM
3	The philosophy of the SSM
4	The SSM and international cooperation

1. The SSM - a new departure for Banking Supervision

The establishment of the SSM

- The origins of the SSM are in the **hard lessons** learned from the recent **global financial crisis**.
- The creation of the SSM 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**.
- The **main objectives** of the SSM are to:
 - Ensure the safety and soundness of the European banking system,
 - Increase financial integration and stability.

1. The SSM - a new departure for Banking Supervision

The preparatory work for the SSM

Since 4 November 2014 the SSM is fully operational.

- Setting up the SSM was a **major and unprecedented undertaking**; the task involved:
 - **Huge recruitment campaigns,**
 - **The building of infrastructures** such as functional IT systems,
 - Harmonised, comprehensive and clearly defined **supervisory standards and processes,**
 - Appropriate **governance structures**, that ensure swift and effective decision making,
 - **“The comprehensive assessment”** of the balance sheets of the banks under the direct supervision of the ECB.
- To meet all of these challenges the **ECB was the ideal home for the SSM**: The ECB provided excellent support and the SSM benefitted from the **experience** and **credibility** of the existing services of the ECB.

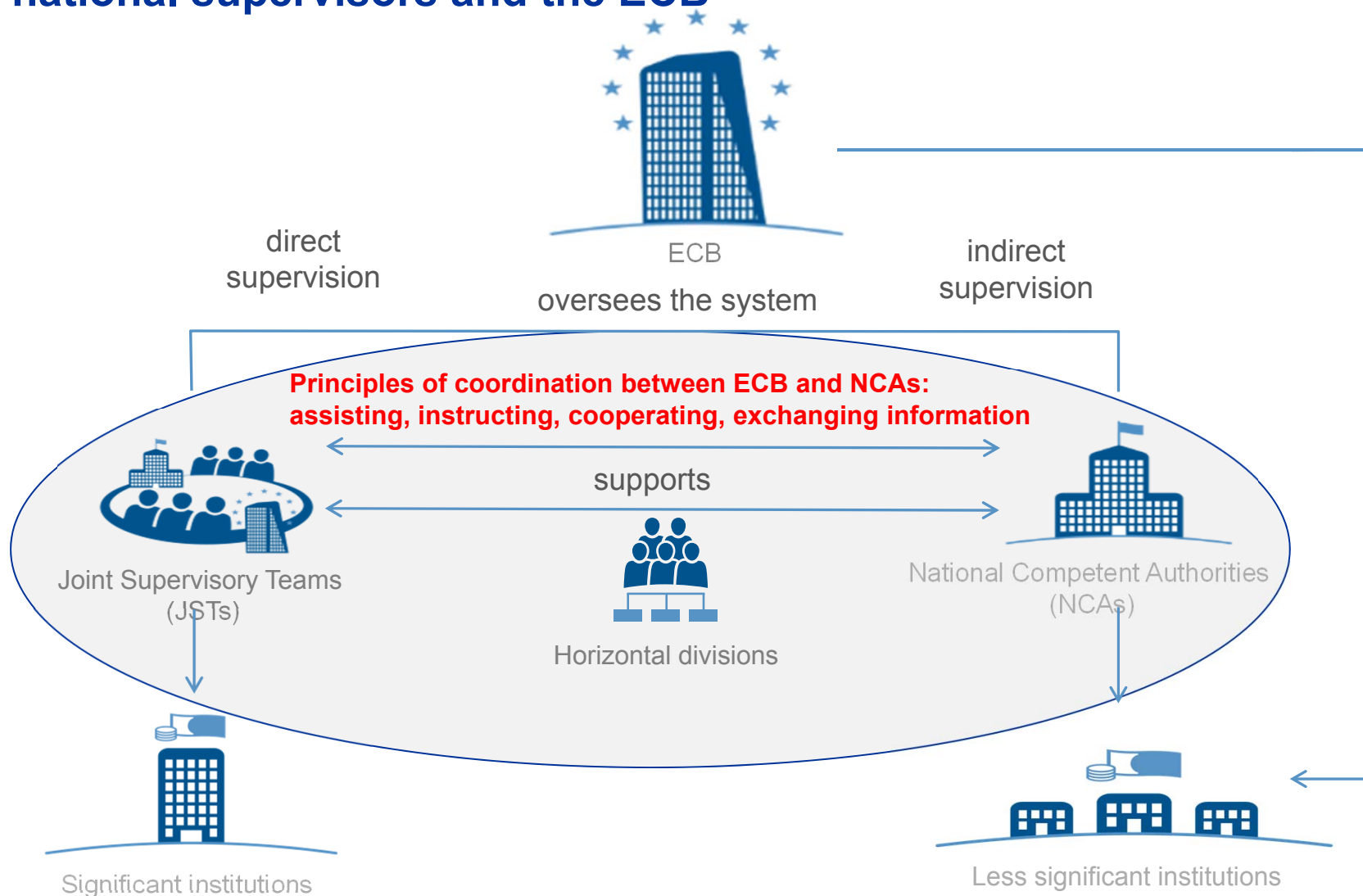
1. The SSM - a new departure for Banking Supervision

The SSM's European Mandate

- The ECB now directly supervises **123 banking groups (comprising about 1 200 banks)** in 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. (about 50% of them being German banks).
- 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 higher capital requirements ("buffers") in order to mitigate financial risks, ...

1. The SSM - a new departure for Banking Supervision

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



1	The SSM - a new departure for Banking Supervision
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2	The functioning of the SSM
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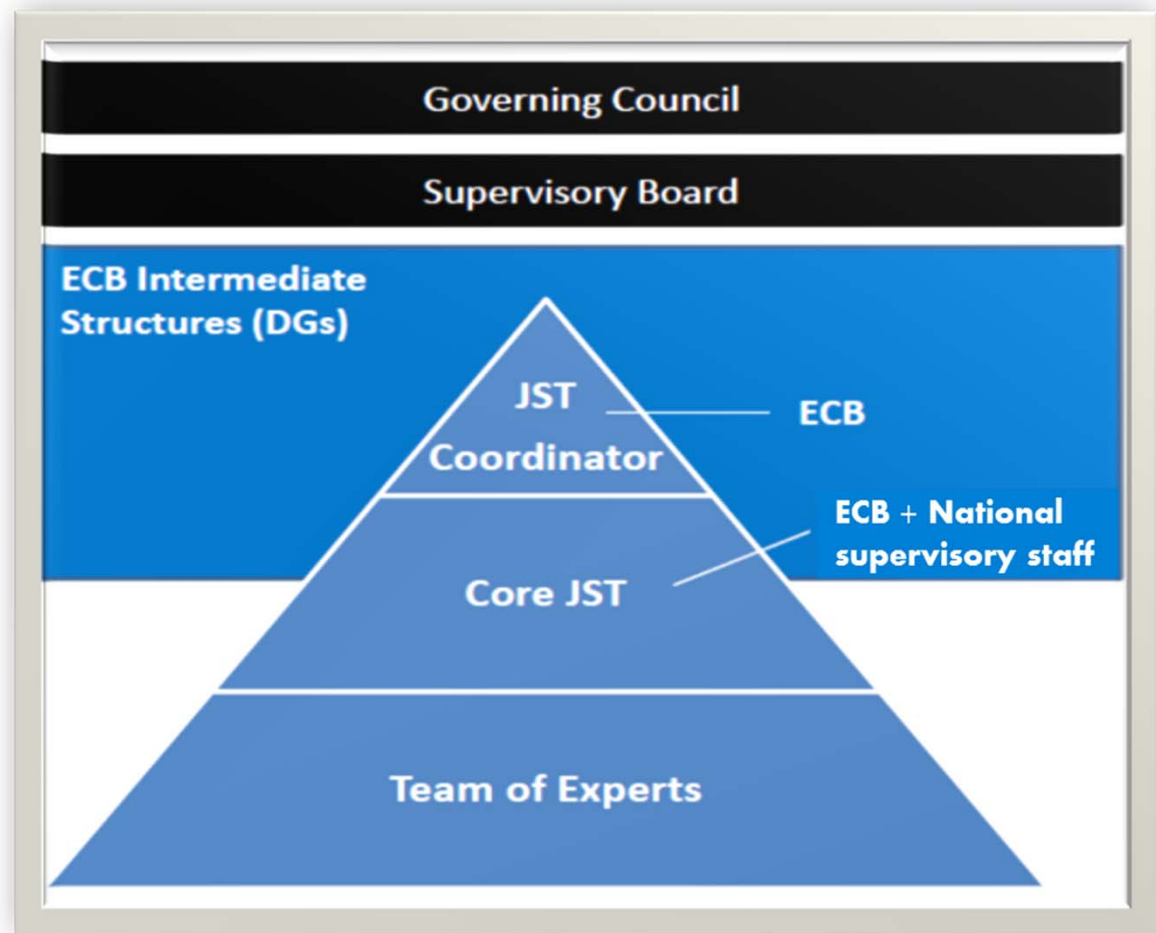
3	The philosophy of the SSM
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2. The functioning of the SSM

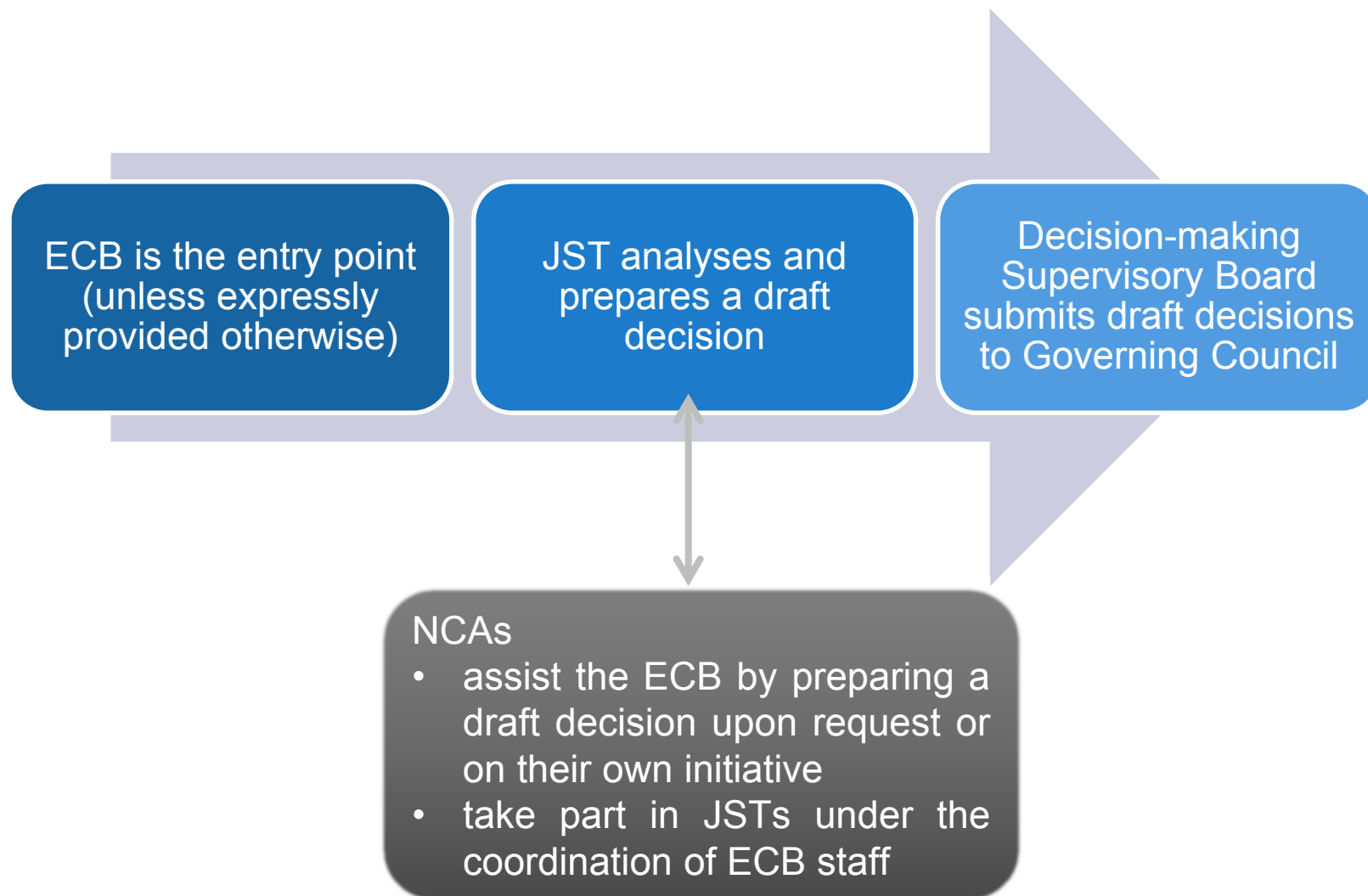
The supervision of significant banks is based on the Joint Supervisory Teams - JSTs

- 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



2. The functioning of the SSM

The supervision of the significant banks



2. The functioning of the SSM

The supervision of the (about 3500) less significant banks (about 50% in Germany in terms of number of institutions and total assets!)

Cooperation

- NCAs directly supervise less significant banks
- ECB receives information on less significant banks
- ECB exercises 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 the ECB's oversight

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

1	The SSM - a new departure for Banking Supervision
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3. The philosophy of the SSM

Our principles for SSM bank supervision

- **Forward looking, judgement and risk-based supervision, grounded in strong analysis and addressing potential problems in a timely manner:**
 - Deep understanding of both risk factors and core business lines at individual banks and across banking 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

Outline

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4. The SSM and international cooperation

The 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 will play 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 national supervisors will attend the college meetings in an **observer role**.
- The ECB already makes use of the **existing cooperation agreements for cooperation with non European countries**; it can also conclude **additional MoUs** with other authorities.

4. The SSM and international cooperation

The 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 (EBA, Basel Committee, Financial Stability Board, ...).
- 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.

Conclusion

- The SSM aims at building a new banking supervisory approach in Europe.
- The ECB aims at being a tough and fair supervisor.
- The SSM is an integrated system based on cooperation between the ECB and the national authorities, to deliver a European supervision, without national bias.

Back up slides

Annex: What is the SSM?

Significant banks

Assets over EUR 30 billion

**Representing > 20% of national GDP
unless total assets < EUR 5 billion**

**Having requested/received EFSF/ESM
money**

**Being among the three largest banks
in the member state concerned**

**Possible take over of direct
supervision of less significant banks
when necessary ***

* to ensure consistent application of high supervisory standards e.g. if NCA does not follow instructions from ECB

Annex: How is the SSM set up?

Operating structure

