



EUROPEAN CENTRAL BANK

EUROSYSTEM

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# The Single Supervisory Mechanism (SSM)

ECB Central Banking Seminar  
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**The views expressed are those of the presenter and not necessarily those of the ECB**

# 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 ahead: SSM Supervisory Priorities 2019 and beyond

## 5 Key conclusions

## Recent financial crises led to the establishment of the banking union

### Purposes of the banking union

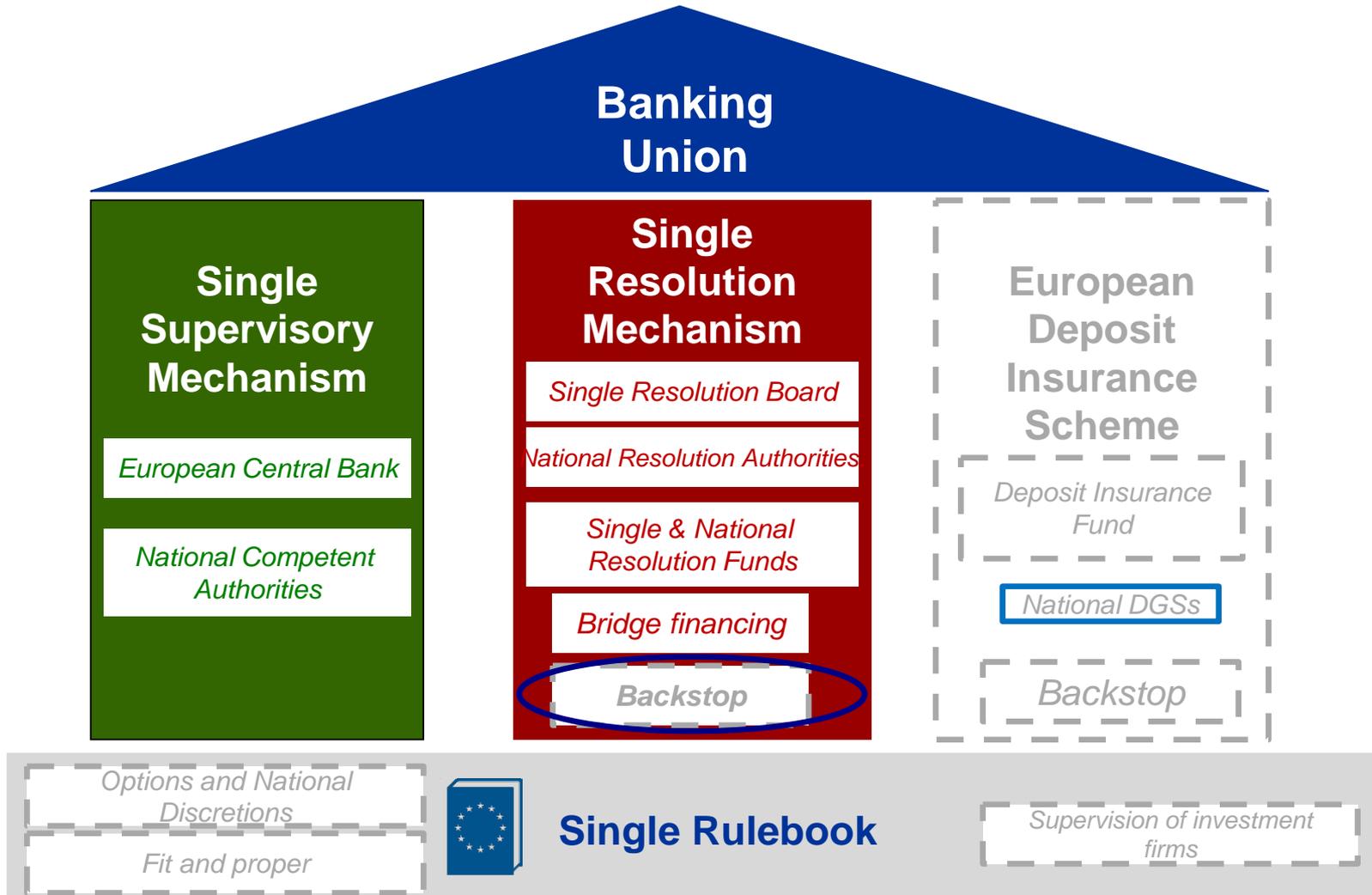
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**Increased transparency by consistently applying common rules and standards**

**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



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

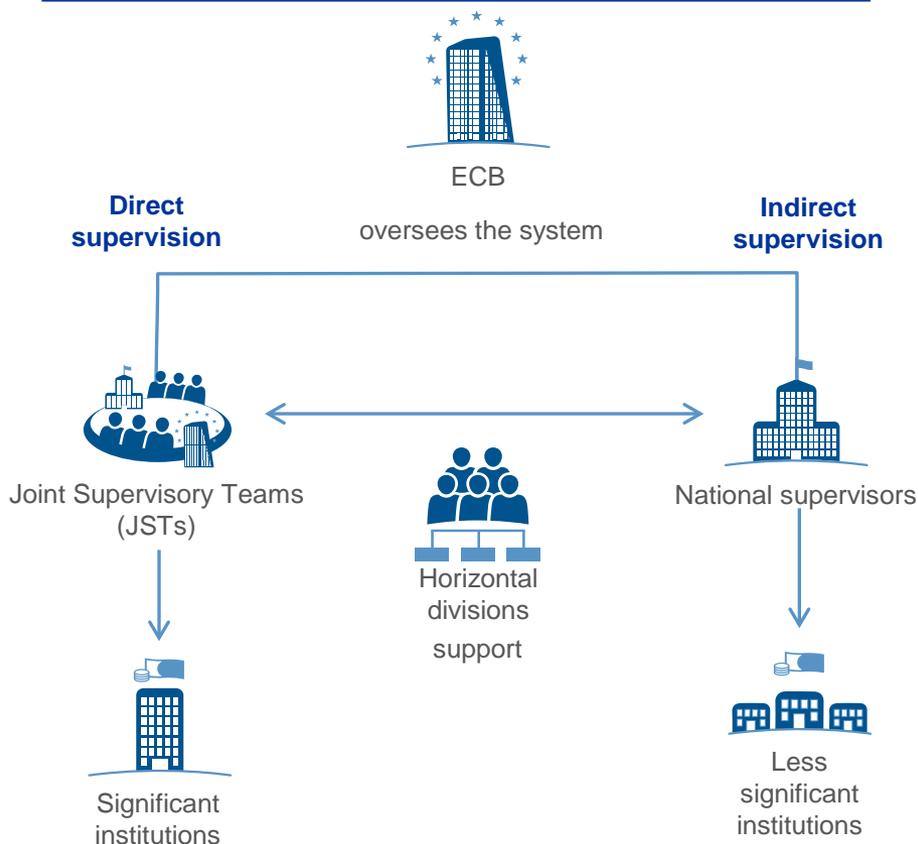
- **Independent Supervisory Board**
- **Governing Council to adopt or object** but not modify proposed decisions
- **Rules on information-sharing** between monetary policy and supervisory functions
  - Confidential information only shared on a need-to-know basis and with approval of the Executive Board
- 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 ...**

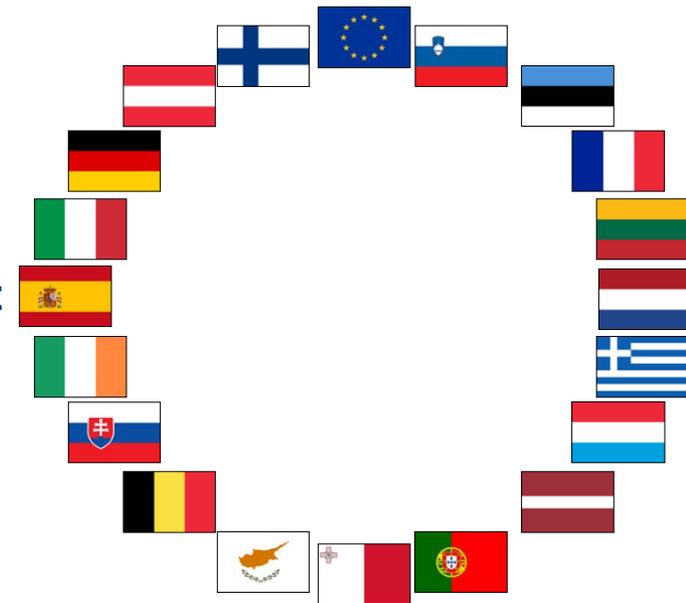
- Shared objective: safe and sound banking system
- Common methodologies and harmonised approaches

➤ **... 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

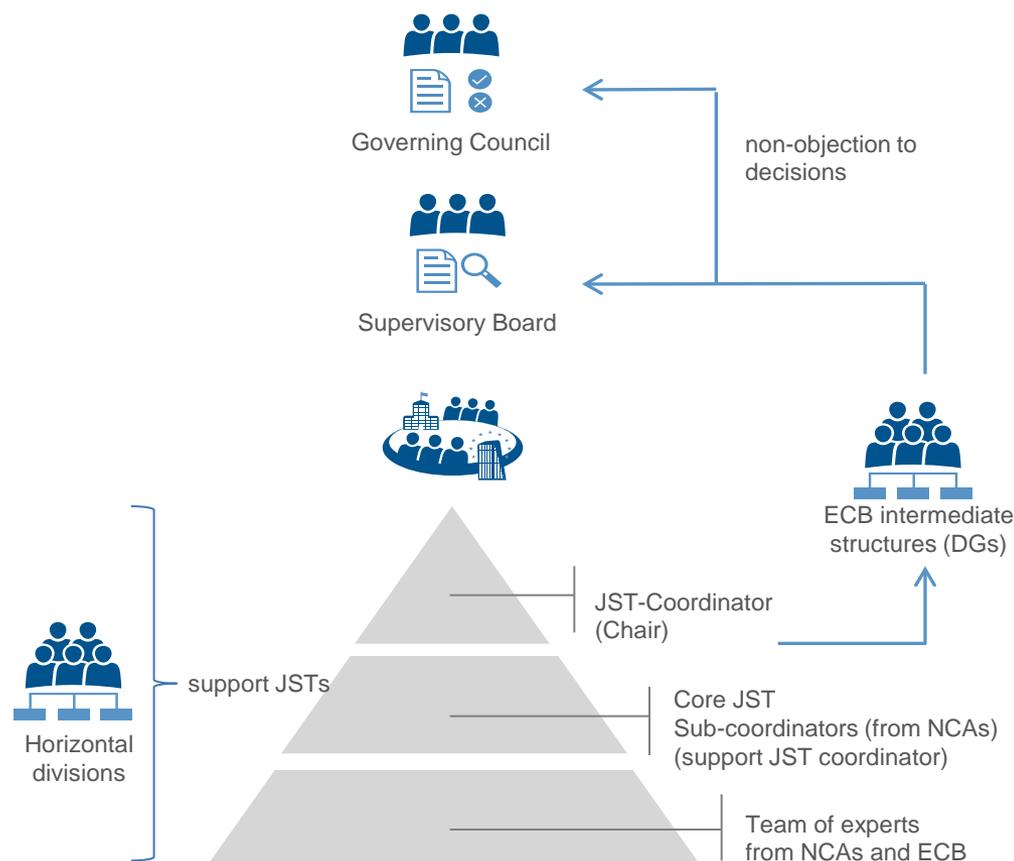
- The SSM is one of the **largest banking supervisory authorities in the world.**
- Currently **116 banking groups** in 19 countries are under direct ECB supervision *(as of 2 May 2019)*
- More than **80%** of euro-area banking assets are under direct ECB supervision *(as of [November 2018](#))*
- **2,874 smaller institutions** at solo level are directly supervised by the National Competent Authorities (NCAs), with the ECB being responsible for the system at large *(as of 31 March 2019)*
- Banking assets under direct and indirect ECB supervision amount to **more than 23 trillion Euros** → about **2.1 times euro-area GDP** *(as of end 2017)*

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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

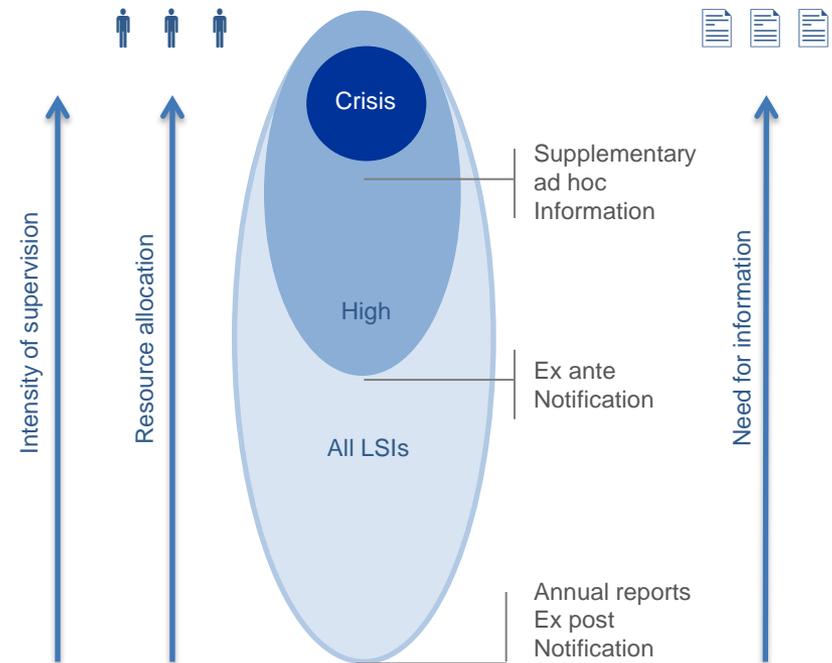


- ECB with overall responsibility
- ECB compares on SSM-level and between sectors
- ECB provides expert support
- ECB promotes best practices
- ECB grants or withdraws banking licenses and assesses acquisitions of qualifying holdings



- 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

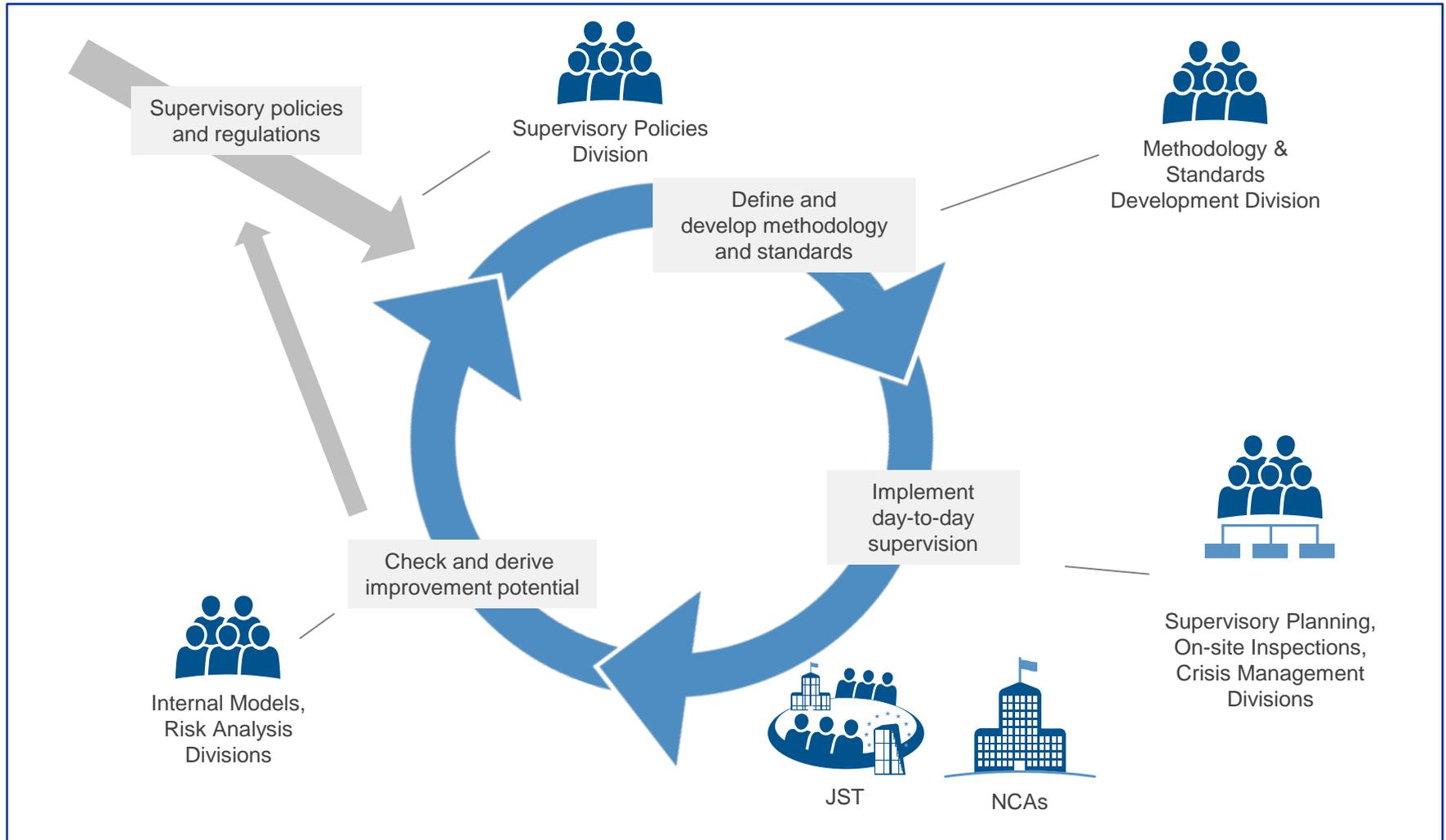
### ➤ **Tools for ECB oversight**

- 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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# A comprehensive supervisory cycle - achieving homogenous supervision



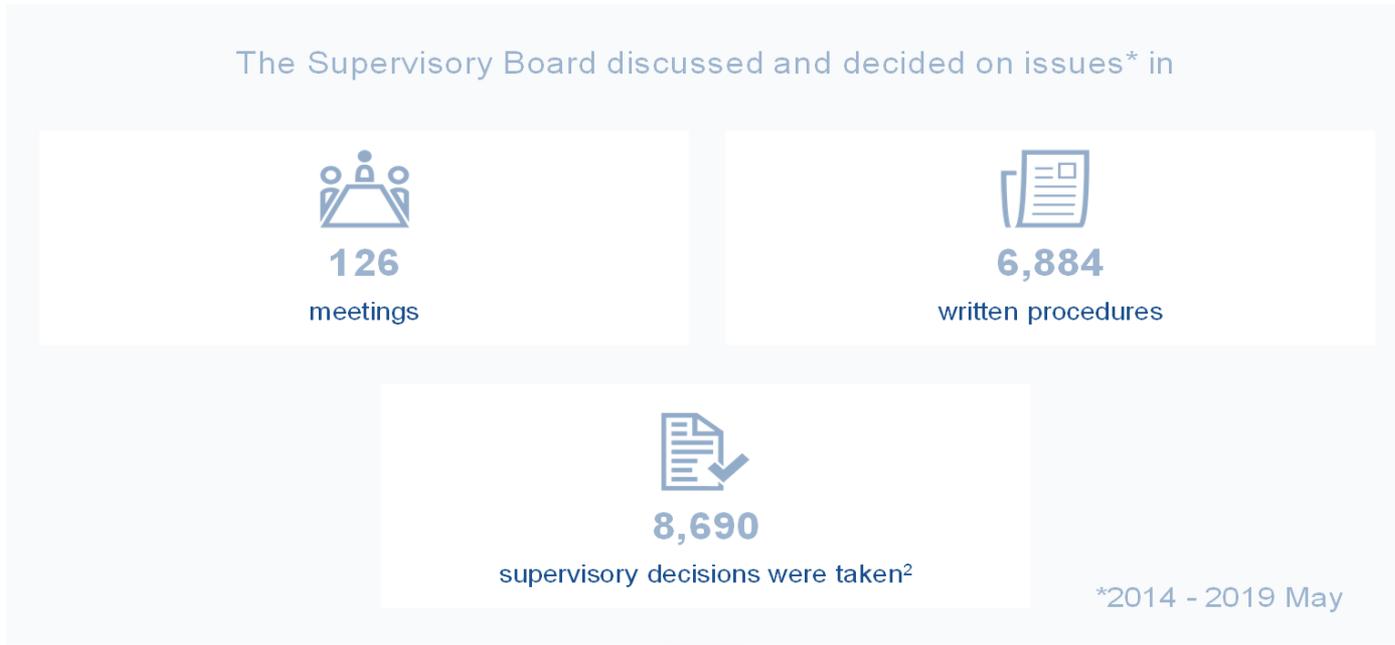
# Close cooperation between on-going Significant Institutions' supervision and horizontal functions



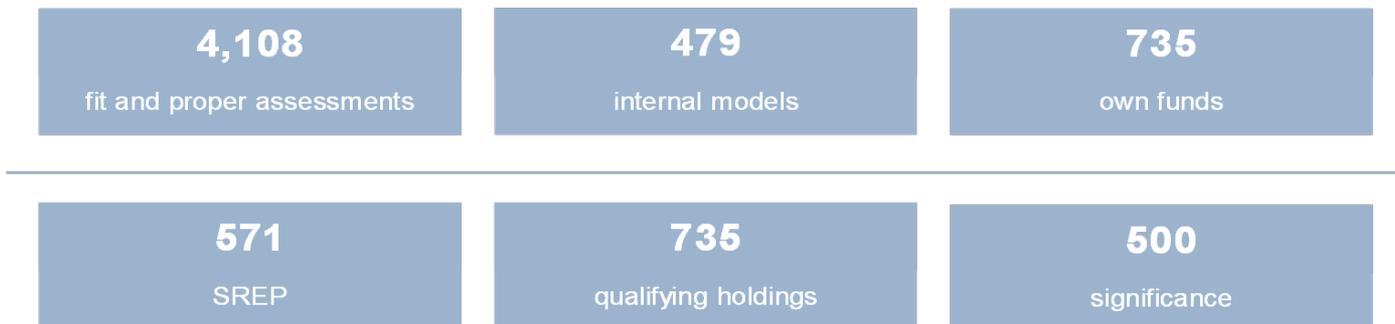
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## Our work in numbers...



### The most common decisions were on





### Harmonisation

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- European banking supervision provides a level playing field for banks across the euro area
- We have harmonised the Supervisory Review and Evaluation Process (SREP), the main tool of banking supervisors in the euro area
- We have harmonised the methodology for on-site inspections
- We have agreed on exercising options and discretions that are provided in European legislation in a consistent manner



### Supervision

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- European banking supervision ensures that all banks are supervised according to the same high standards (and the banks have adapted)
- Most importantly, we have taken measures to reduce non-performing loans
- We also launched a targeted review of banks' internal models
- On top of that, we have dealt with important topics such as governance, cyber risk, leveraged finance, data quality, IFRS9 ...

## European banking supervision has a visible impact

### Non-performing loans

- NPL ratio for SIs down from **7.5%** in Q4 2014 to **3.9%** in Q4 2018

### Liquidity

- Liquidity Coverage Ratio up from **128%** in 2014 to **145.61%** in Q4 2018

### Capital

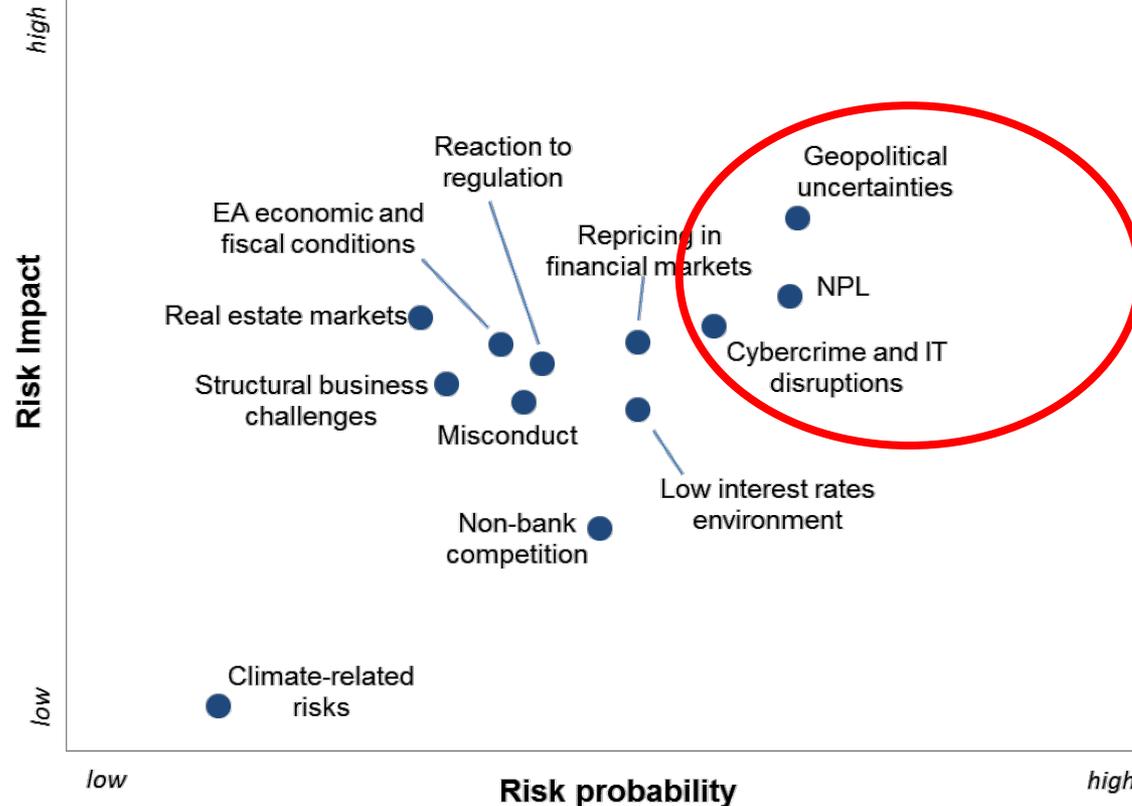
- CET1 ratio increased from **11.2%** in Q4 2014 to **14%** in Q4 2018



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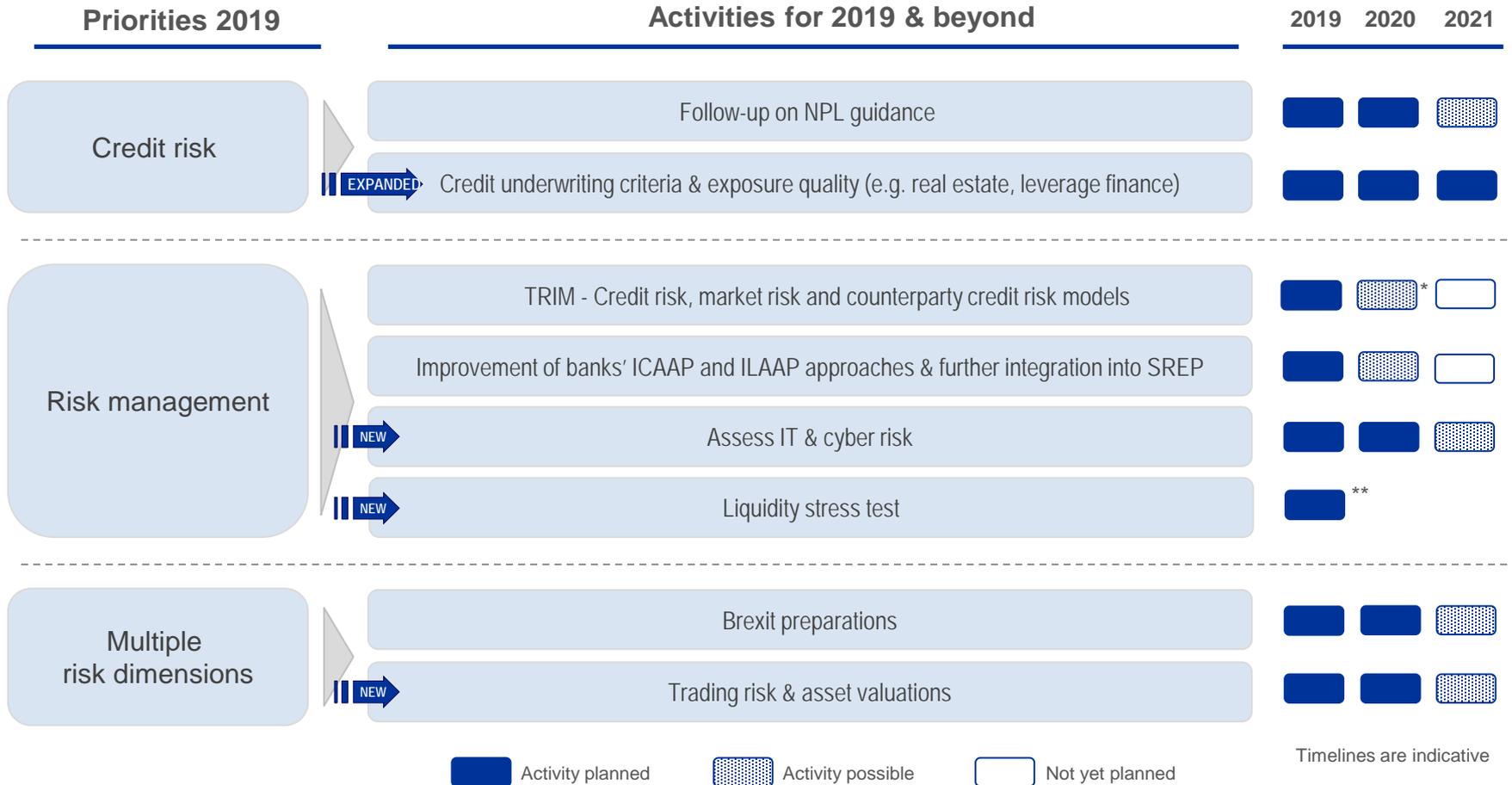
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## Key risk drivers for SSM banks in 2019



- The map shows an **aggregate risk picture to SSM banks for the next 2-3 years**
- The top three risk drivers are **geopolitical uncertainties, NPL and cybercrime and IT disruptions**
- Compared to the previous published Risk Map, there was an **increase in risks related to geopolitical uncertainties and to repricing in financial markets**
- Moreover, progressing **digitalisation** intensifies the risks related to Cybercrime and IT disruptions.

## SSM Supervisory Priorities for 2019 and beyond



\* The on-site phase of the project is expected to be concluded in 2019; in 2020 residual activities would be performed.

\*\* In 2020 the EU-wide stress test exercise will be conducted

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### The SSM: looking back and ahead

- 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 fifth supervisory cycle, European banking supervision **continues to make steady progress** on its existing and newly identified priorities.
- For 2019, the SSM has set the following high-level priority areas: **credit risk, risk management and activities compromising multiple risk dimensions**
- 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](#).