Dear Mr Melo,

Thank you for your letter, which was passed on to me by Ms Sharon Bowles, Chairwoman of the Committee on Economic and Monetary Affairs, together with a cover letter dated 30 January 2013.

With regard to the scope of supervisory responsibilities to be entrusted to the Single Supervisory Mechanism (SSM), the ECB has always emphasised the fact that the scope of the SSM should include all credit institutions in the euro area and in other non-euro area Member States wishing to participate within a framework that provides for the efficient decentralisation of supervisory activity within the SSM. In this respect, the legal jurisdiction of the SSM will extend, in a uniform manner, to all banks in the euro area Member States and in the participating non-euro area Member States.

As regards the effective implementation of the SSM, the current draft legislation, which is pending finalisation by European legislators, distinguishes between “significant” and “less significant banks” according to their size, their importance to the economy and their cross-border activity, as well as whether or not they benefit from direct EU financial assistance from the EFSF or the ESM. This allows for an efficient sharing of tasks between the supranational and the national levels within the SSM, fully exploiting national expertise and proximity in terms of banking supervision. The ECB will have full supervisory powers over the significant banks, with the assistance of the national supervisory authorities.
In addition, the draft legislation confers important powers upon the ECB as regards the less significant banks: first, the national supervisory authorities will need to abide by ECB regulations, guidelines and general instructions and the ECB will, in turn, have far-reaching oversight powers over the functioning of the SSM at the national level; second, the ECB shall have access to supervisory data on any of the credit institutions based in any of the participating Member States. On the basis of the information received, the ECB may, at any time, decide to exercise direct supervision of less significant credit institutions, upon its own initiative or at the request of the respective national supervisory authority. These powers will allow the ECB to ensure the effective supervision of all credit institutions within the participating Member States.

With regard to your question on the €200 and the €500 banknotes, let me recall that prior to the euro cash changeover in January 2002, six of the euro area countries – Belgium, Germany, Italy, Luxembourg, the Netherlands and Austria – already held national banknotes worth between €200 and €500 in their legacy currencies. Therefore, high-denomination euro banknotes play an important role as a store of value both within the euro area and abroad. An analysis published in the ECB’s Monthly Bulletin of April 2011 estimated that only around one-third of these high-denomination euro banknotes are actually used for transaction purposes, while the remainder is used as a store of value in the euro area or abroad. This is also confirmed by the very low frequency with which these banknotes come back to the central banks.

The issuance of euro banknotes follows the demand of the economic agents, both in terms of denomination and quantity. Therefore, the ECB does not plan to change the denominational composition of the euro banknotes, including the €200 and €500 denominations.

If you require any further information on this topic, please refer to the ECB’s website, where you will find an overview of the developments in euro banknotes in circulation.

Yours sincerely,

[signed]

Mario Draghi