



EUROPEAN CENTRAL BANK

BANKING SUPERVISION

# European banking supervision, global cooperation and challenges for banks

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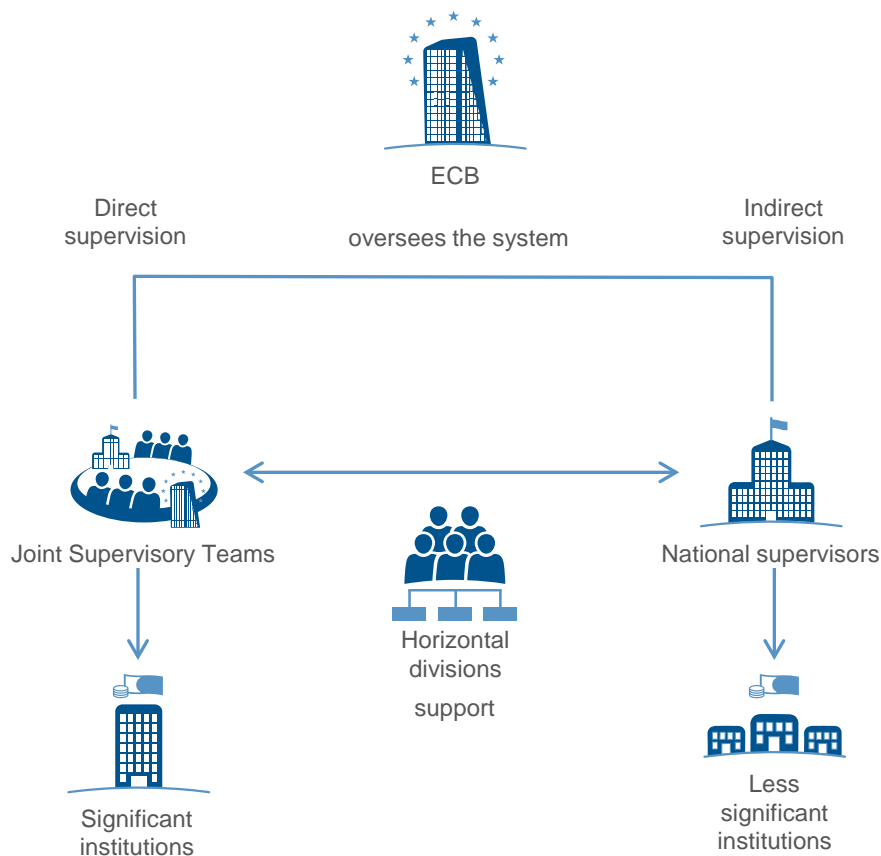
## Outline

- 1 The set-up of European banking supervision
- 2 Regulation and supervision – The international dimension
- 3 The challenges for banks

## 1.1 The architecture of European banking supervision

# European banking supervision is based on co-operation between the ECB & national supervisors

### Distribution of tasks within the SSM



### Key SSM facts

1. The Single Supervisory Mechanism (SSM) is one of the **largest banking supervisory authorities in the world.**
2. Currently **125 banking groups** in 19 countries are under direct ECB supervision. Almost **82 %** of euro-area banking assets are under direct ECB supervision.
3. Around **3,200 smaller institutions** are directly supervised by the National Competent Authorities (NCAs), with the ECB being responsible for the system at large.
4. Banking assets under direct and indirect ECB supervision amount to **more than 26 trillion Euros** → about **2.6 times euro-area GDP.**

## 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

- Identifying relevant risks
- Assessing risks fairly and consistently
- Intervening timely and resolutely when deficiencies are identified

→ **Tough and forward-looking supervision** of credit institutions

### 2. Financial integration

- Developing harmonised supervisory methods and approaches
- Applying the supervisory framework consistently across all participating countries

→ Creation of a **supervisory level playing field**

## The Supervisory Review and Evaluation Process

### SREP methodology at a glance: four key elements

#### SREP Decision

Quantitative capital measures

Quantitative liquidity measures

Other supervisory measures

#### Overall SREP assessment - Holistic approach

→ Score + Rationale/main conclusions

Viability and Sustainability of Business Model

Adequacy of Governance and Risk Management

Categories: e.g. Credit, Market, Operational Risk

Categories: e.g. Short Term Liquidity Risk, Funding Sustainability

1. Business model assessment

2. Governance and Risk Management assessment

3. Assessment of risks to Capital

4. Assessment of risks to Liquidity and Funding

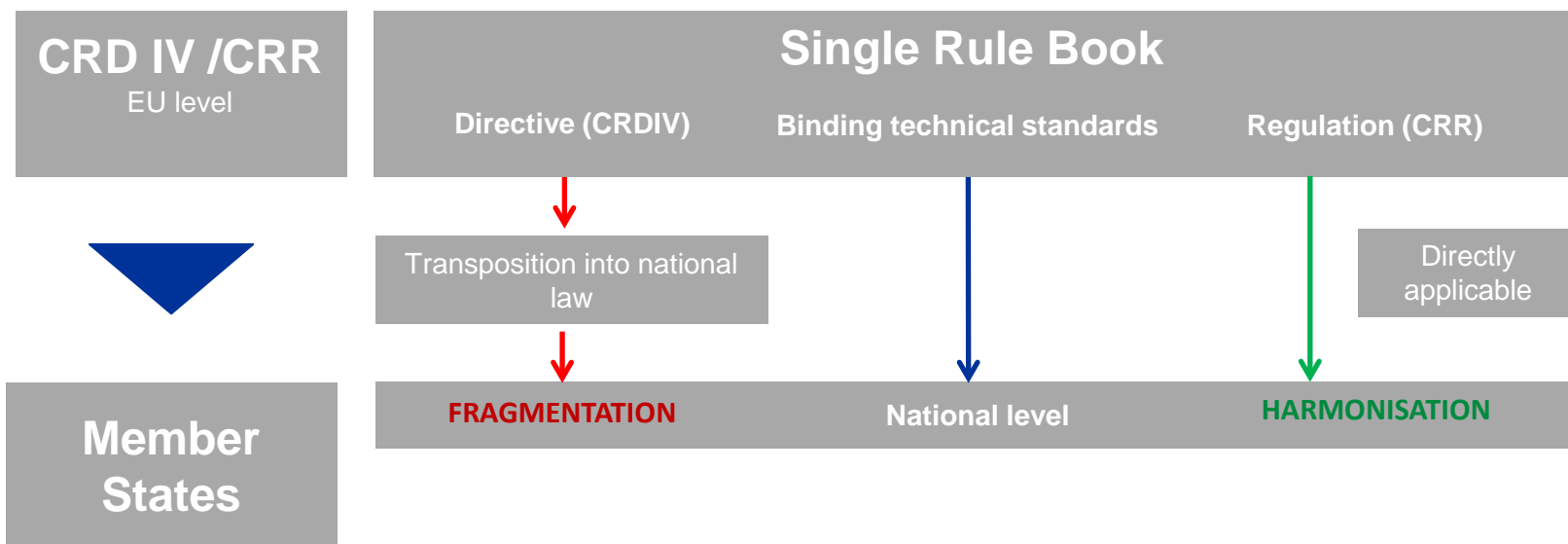


Feeds into the Supervisory Examination Programme (SEP)

### The main features of the SREP

- **Level playing field:** SREP is being conducted according to...  
...a common methodology → banks across the euro area are assessed according to the same yardstick.
- **High standards of supervision:**
  - Methods follow guidelines from the European Banking Authority and draw on best practices from across the euro area.
  - Methods are constantly being improved and refined.
  - SREP approach incorporates principle of proportionality.
  - Based on the SREP assessment, supervisors can demand capital add-ons and additional measures tailored to banks' specific weaknesses (such as additional reporting requirements).
- **Sound risk assessment:**
  - SREP assessment is based on a combination of quantitative and qualitative elements – expert judgement and data analysis.
  - It delivers a holistic & forward-looking assessment of institutions.

## 1.4 Harmonising supervision – The limits



- Unjustified **regulatory fragmentation** in the euro area ....
  - ... runs counter to the idea of a European banking union,
  - ... hampers European banking supervision,
  - ... creates bureaucracy and increases costs.
- **Additional fragmentation:**
  - in the **exercise of supervisory powers** by ECB/national competent authorities
  - in the **supervisory landscape**

## Outline

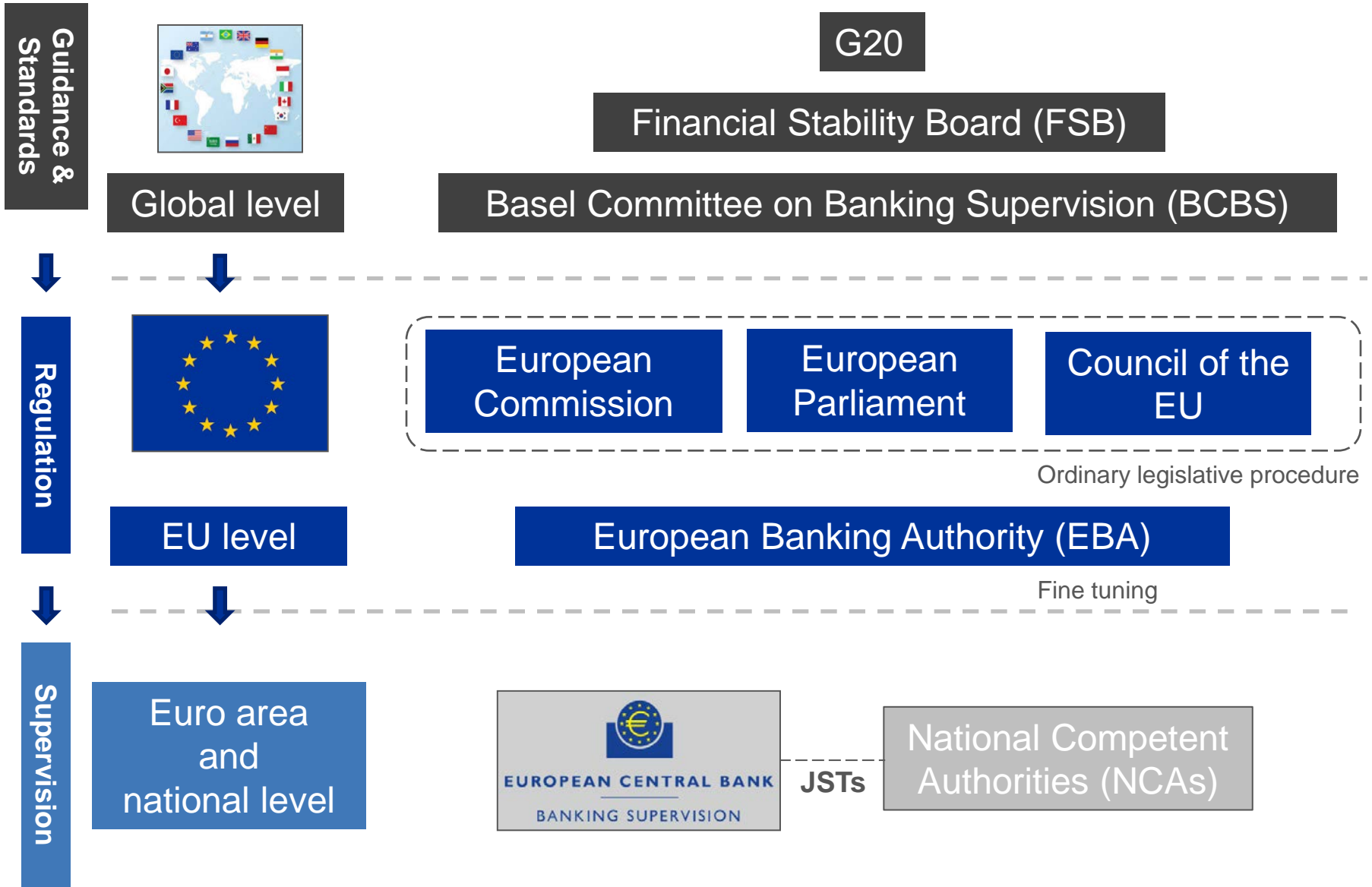
1 The set-up of European banking supervision

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# 2.1 The international dimension of rule-making and supervision



## 1 Third country authorities

### Step-in

- Continuity of previous cooperation between euro area authorities and 3<sup>rd</sup> country authorities is very important for the ECB.
- ECB proposal to 3<sup>rd</sup> country authorities to cooperate based on existing MoUs already signed with the authorities in the euro area.

### MoUs

- ECB staff drafted a template MoU negotiated with third country authorities.
- Negotiations have started with Authorities in: Brazil, Canada, Hong Kong, Japan, Mexico, Singapore, Switzerland, USA.

## 2 EU Authorities outside of SSM

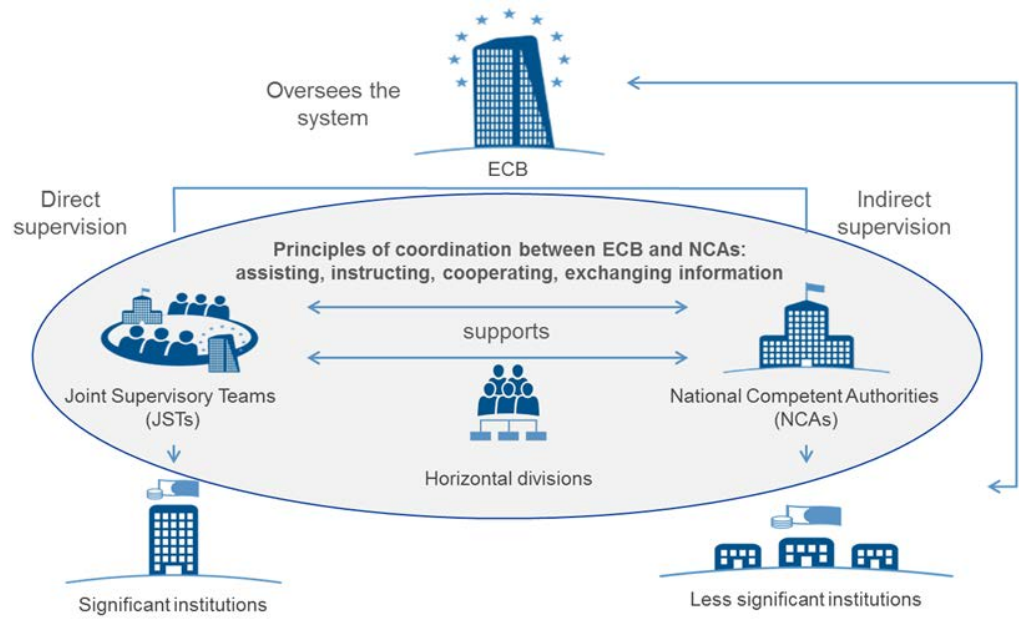
### Step-in

- ECB cooperates with non-SSM Authorities based on pre-existing MoUs with the authorities in euro area countries.

### MoUs

- The ECB staff is negotiating a template MoU with all non-SSM EU Member States.

## 3 Supervision within the SSM



# Home-host cooperation – The role of the ECB



**45** Colleges of supervisors in which the ECB participates ...

Colleges of supervisors are permanent coordination structures that bring together the competent authorities involved in supervising cross-border banking groups

### 1 ... as consolidating supervisor

- The ECB chairs the EU colleges of 29 euro area institutions (8 G-SIBs) under EU law.
- The ECB chairs four international colleges (which do not include European Union participants) of banks headquartered in the euro area which have material cross-border activities within the euro area and outside the EU.

### 2 ... as host supervisor

- The ECB participates in seven colleges for institutions (one G-SIB) headquartered in non-participating EU member states, under EU law.
- The ECB is a member of colleges of five international third-country institutions (4 G-SIBs) with subsidiaries which are significant institutions in the euro area.

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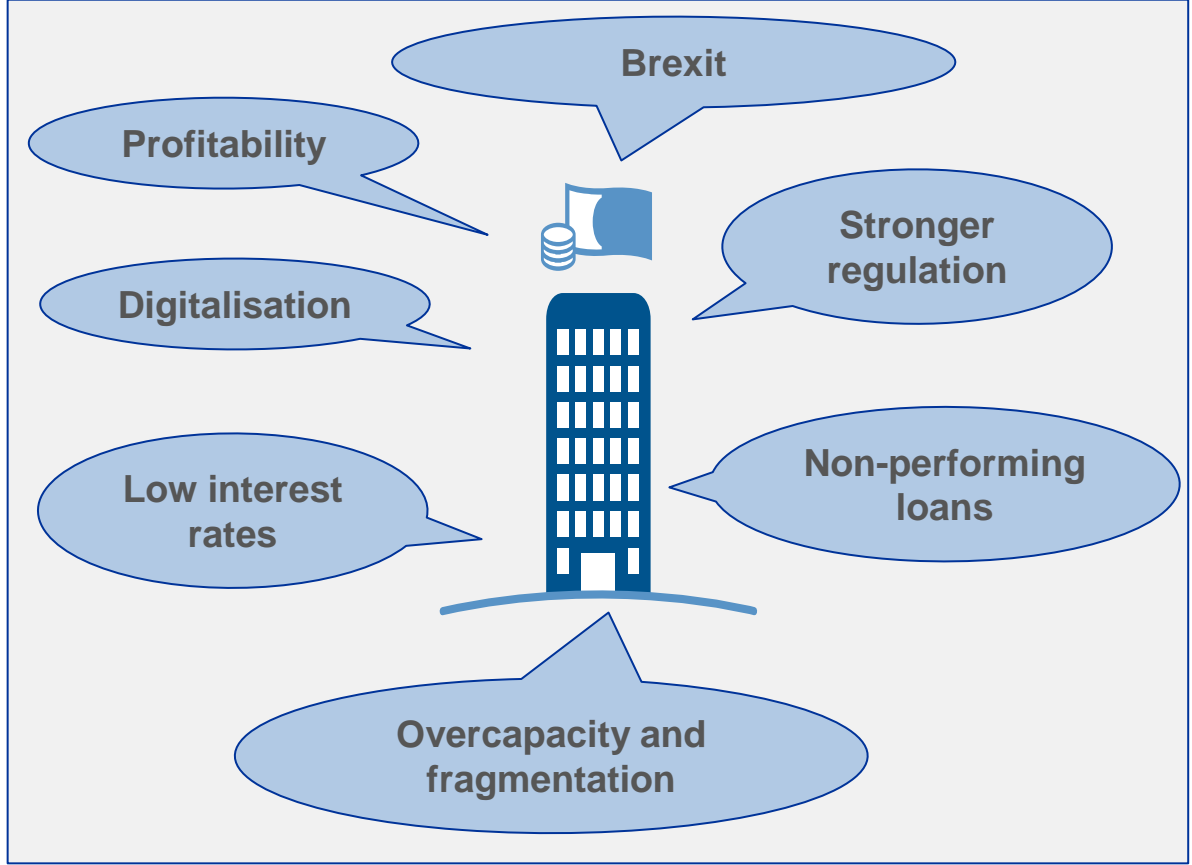
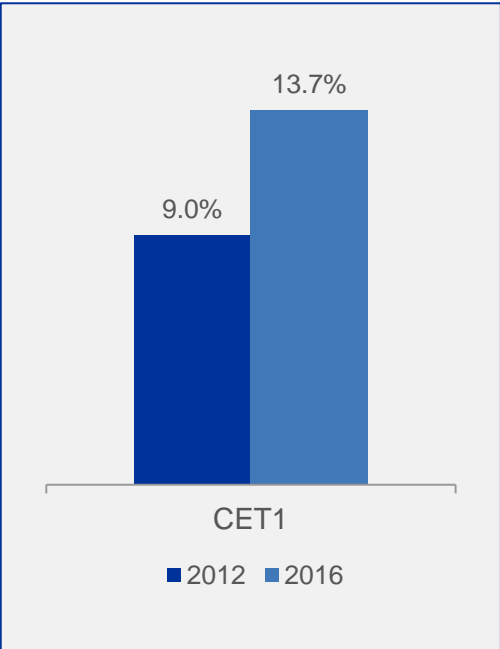
3 The challenges for banks

# 3.1 The challenges for European banks

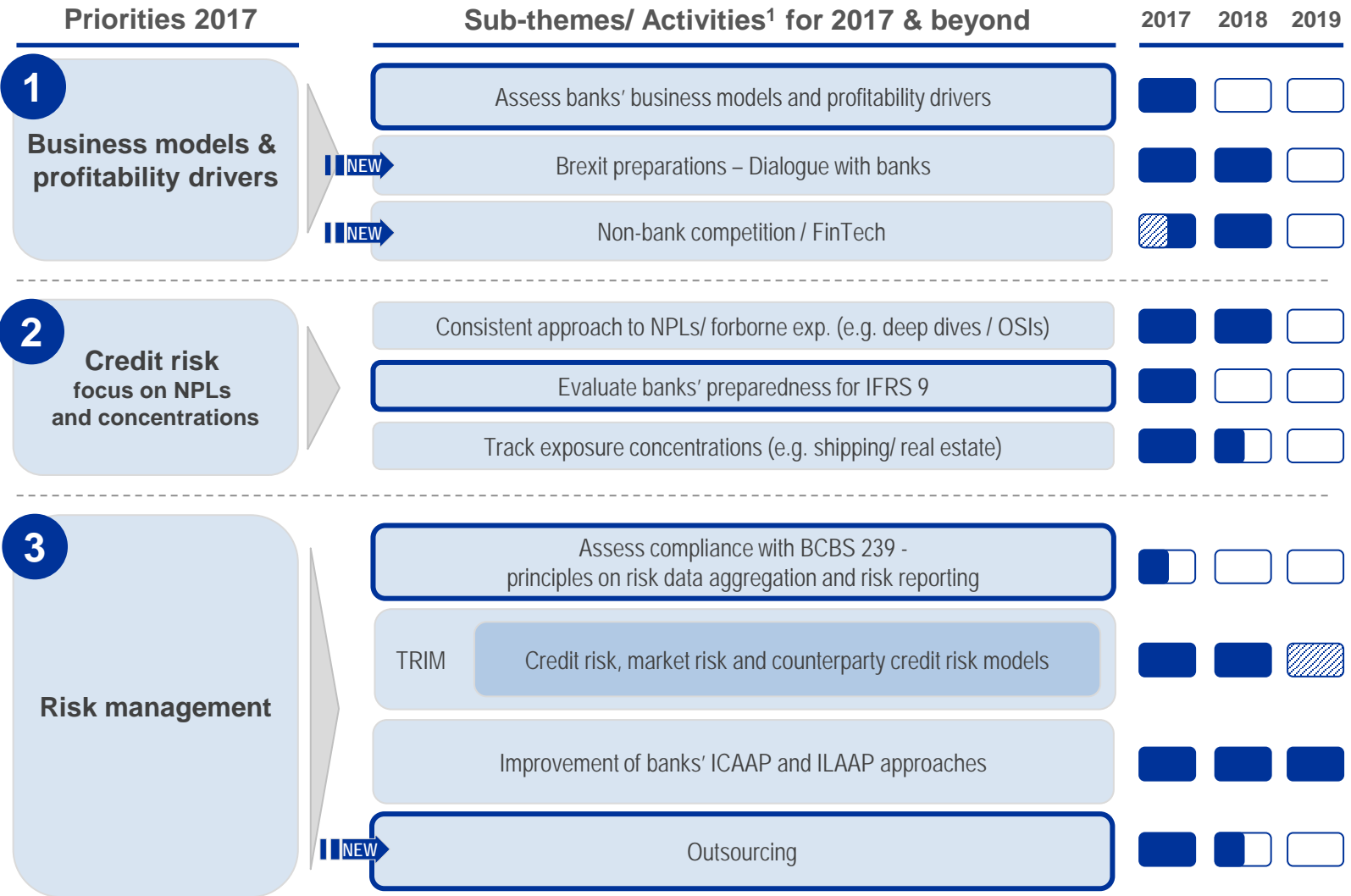
Banks have become more resilient, ...

... but still face challenges

**CET1 ratio 2012-2016**  
(Euro area Significant Institutions)



# The SSM Supervisory Priorities 2017



1. Thematic reviews are highlighted with dark blue border

Timelines are indicative