



EUROPEAN CENTRAL BANK

EUROSYSTEM

Verso un modello di SREP Europeo

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DG MS I

Basilea 3 Risk and Supervision 2014 (Associazione Bancaria Italiana)

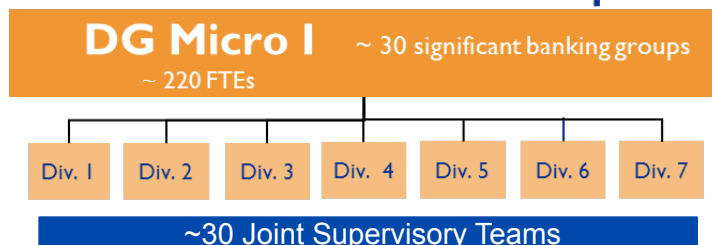
Roma, 17 Giugno 2014

Agenda

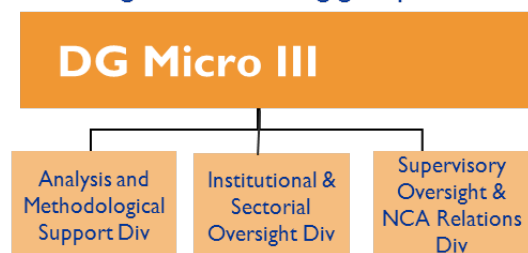
- 1 How is the SSM organised?
- 2 What is the SSM approach in supervising banks?
- 3 What will happen in the short term?

ECB internal supervisory structures: DG Micro-prudential Supervision

Direct Supervision over significant banking groups



Indirect Supervision over less significant banking groups



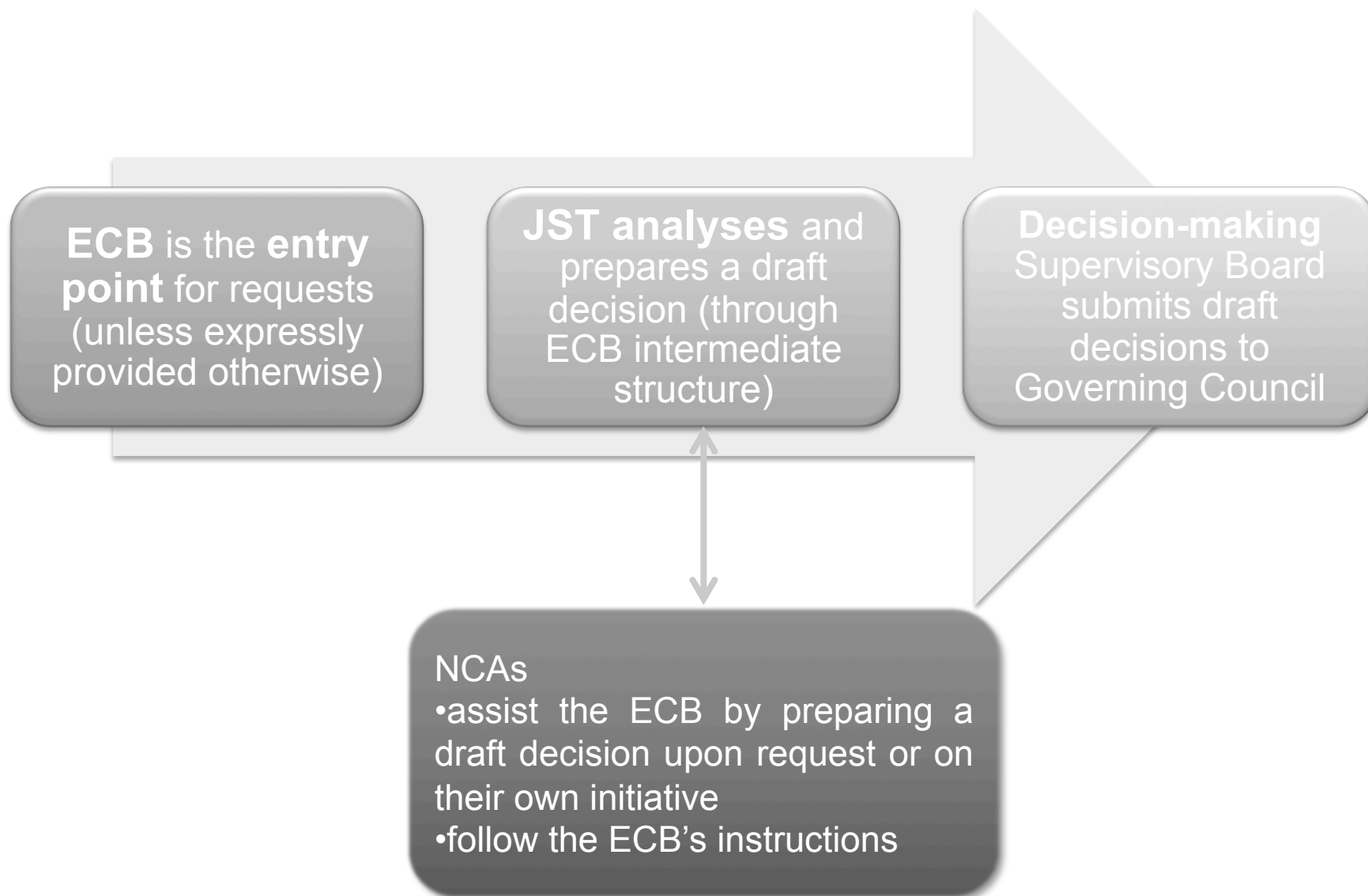
Horizontal Supervision & Specialised Expertise



Secretariat

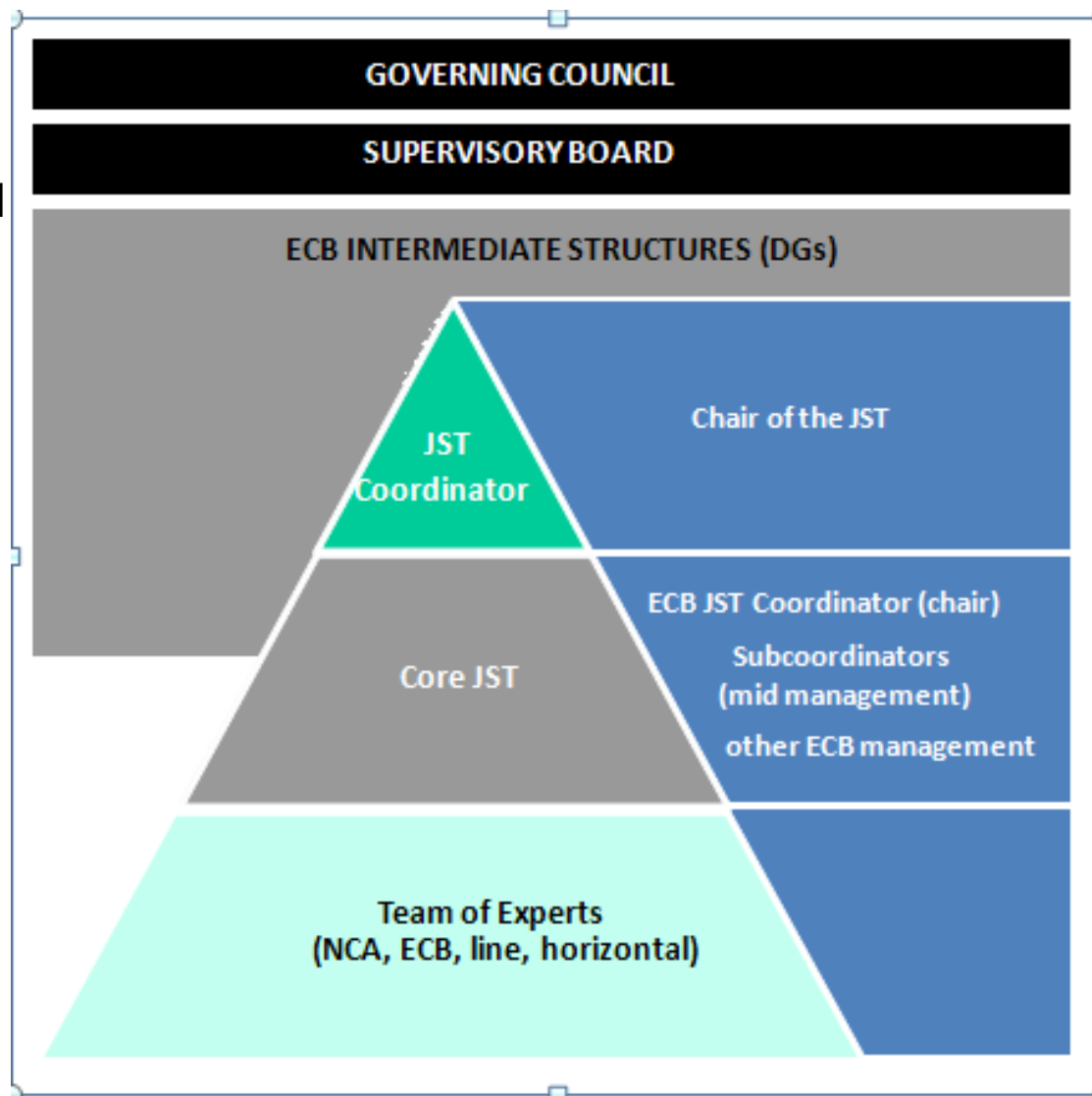


Supervision of significant banks

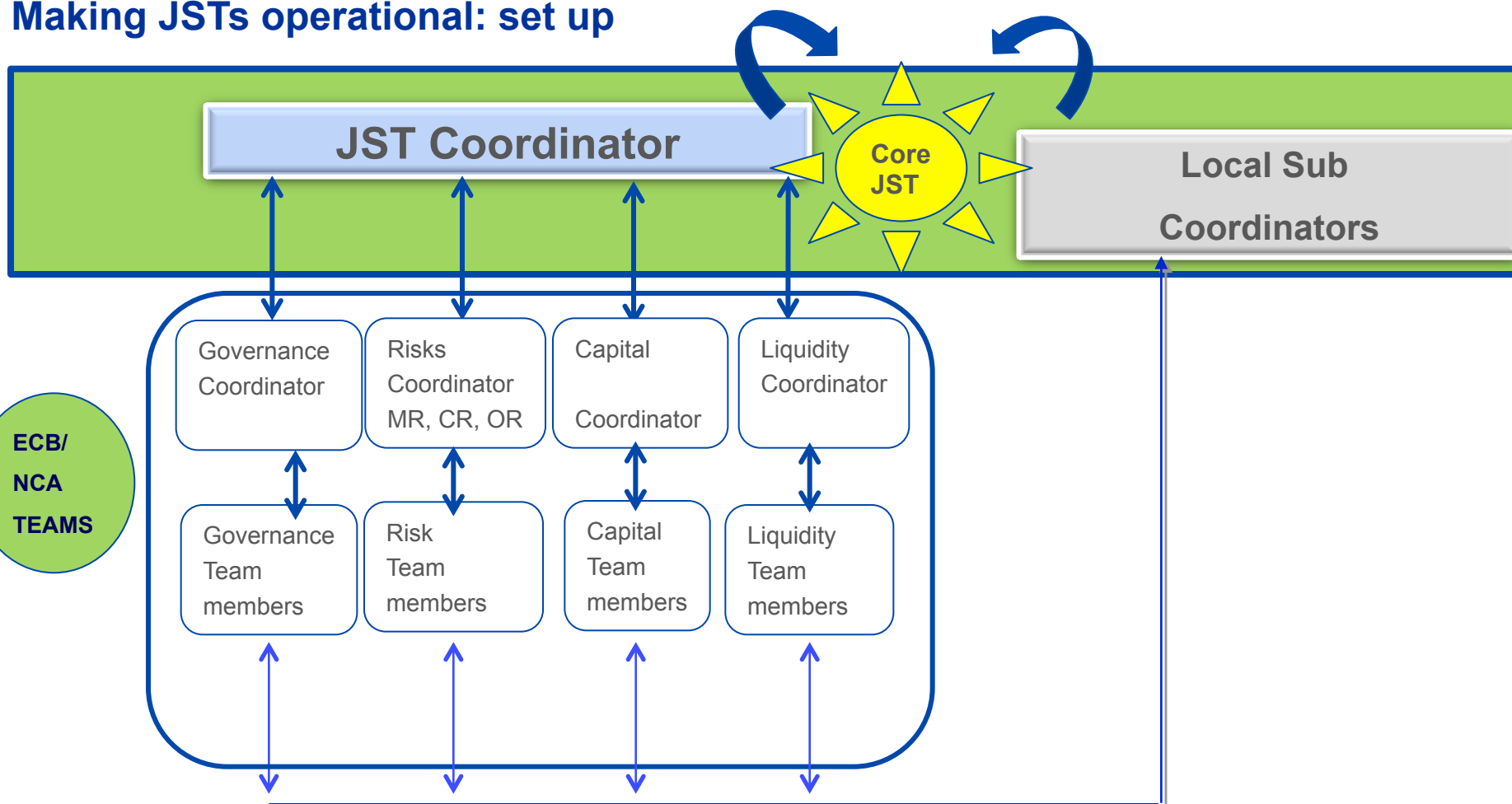


Joint Supervisory Teams established

- Established for every significant banking group, comprising staff from ECB and NCA
- Responsible for day-to-day supervision of individual significant institutions and for implementing the annual supervisory programme
- Responsible for implementing decisions of Supervisory Board/Governing Council
- Size and composition of JSTs vary between institutions



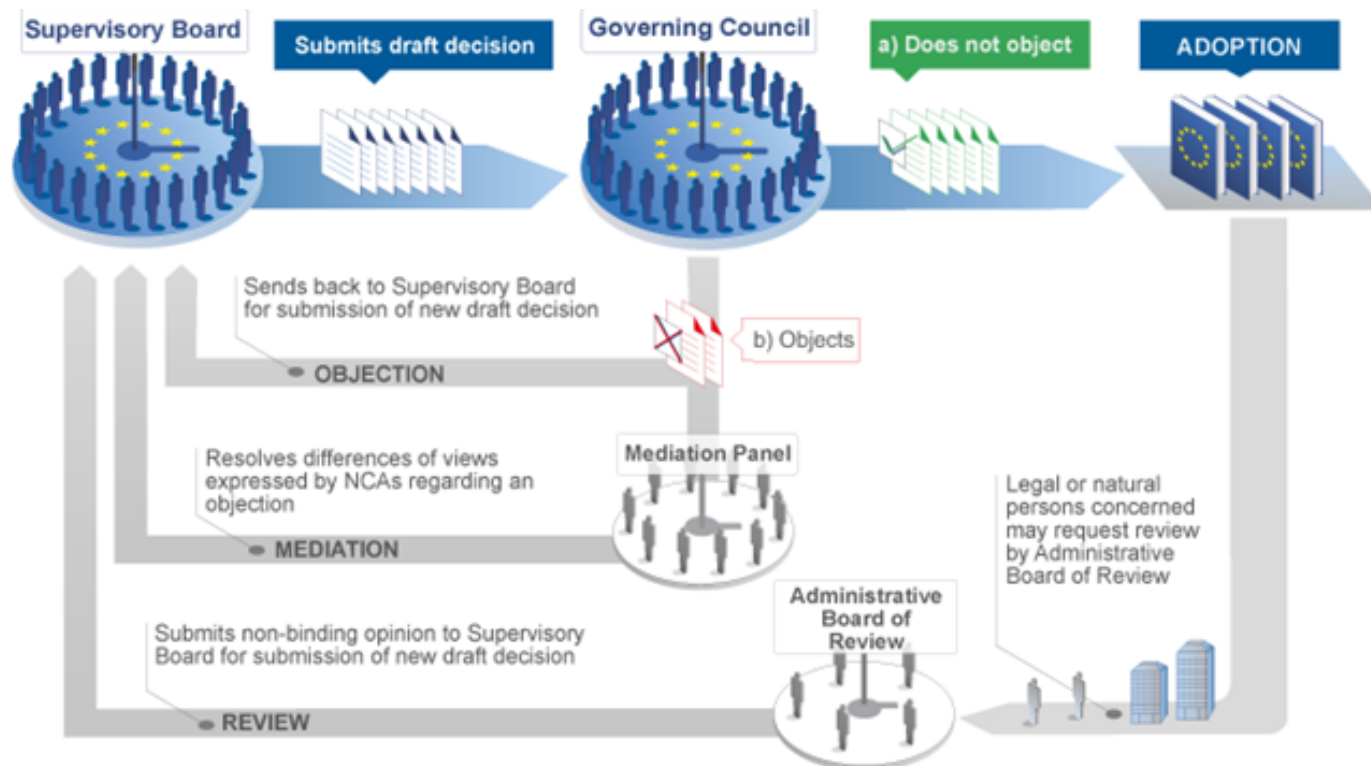
Making JSTs operational: set up



- JST Coordinator fully empowered with clear lines of accountability
- Strong ECB/NCA teams integrated by major risks across most complex groups
- Local Sub Coordinators integrated into core JST structure
- Local Sub Coordinators support JST locally and fully informed of their respective staff activities

Decision-making process

Decision-making in the Single Supervisory Mechanism will be based on a new procedure known as the “non-objection” procedure.



- The Supervisory Board will propose draft decisions to the Governing Council of the ECB. If the Governing Council does not object to the draft decision within a defined period of time, the decision will be deemed adopted.

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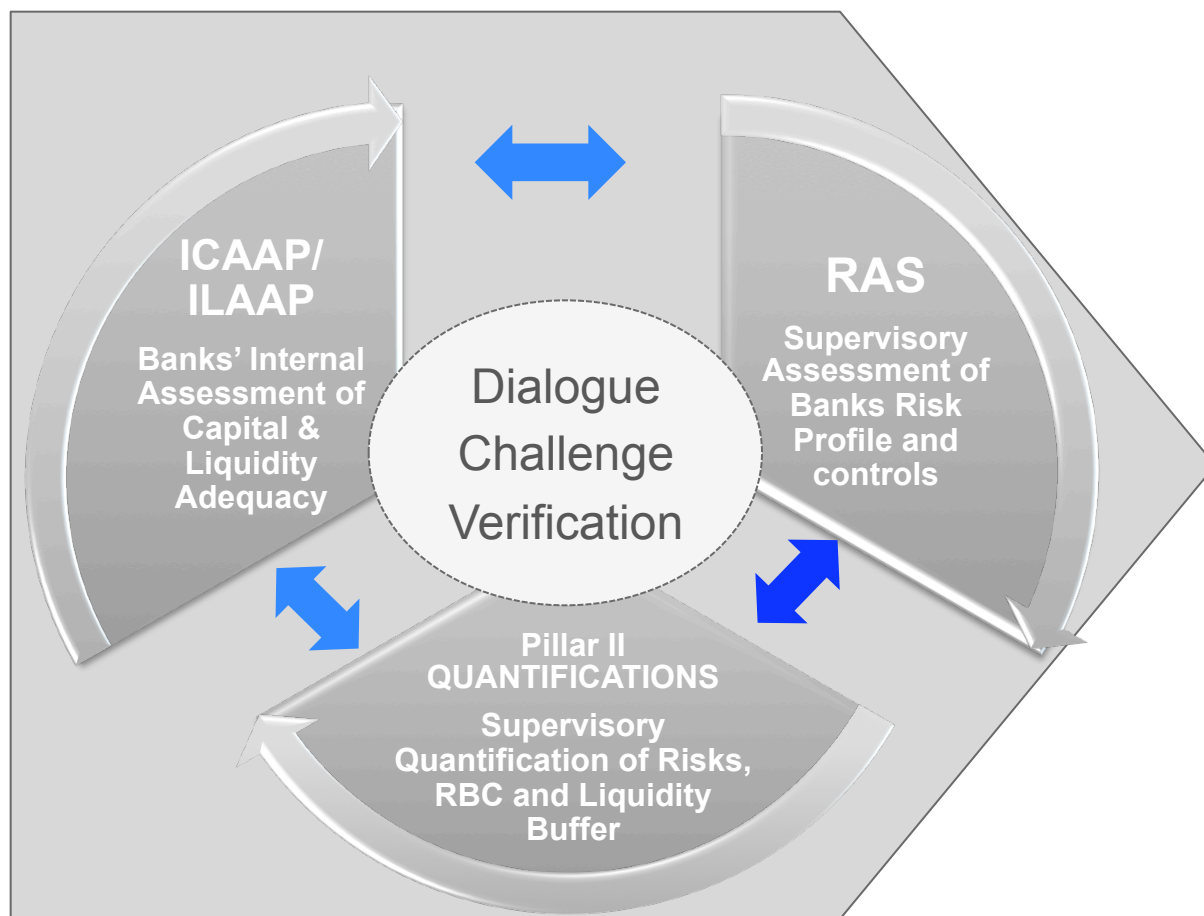
General Principles for Supervision of SIs

- Promote forward looking, risk-based and judgement-based supervision (grounded in strong analysis) 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.
 - Understand risk governance, risk culture, business model, and risk appetite
 - Requires regular high-level interactions at board and executive management levels
- Promote multiple perspectives on risk and free flow of information
 - Promote cross institutional perspective
 - Promoting best supervisory practices and insights across institutions and countries
 - 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”** provides 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

Overview on the Integrated Approach:



Outcomes of the Integrated Approach

Quantifications and narratives

- 1) Risk and Control Assessment
- 2) Capital Adequacy Assessment
- 3) Liquidity and Funding Adequacy Assessment

Decisions on Supervisory Actions

- Corrective Actions ("Toolkit")*
- On-going and follow-up intensity
- Supervisory Examination Program (SEP)

The SSM Framework for the dialogue with institutions and On Site Inspections

- **The SSM will strive for proximity and close contacts with the institution during the on-going supervisory activities**
 - Meeting schedule involving all hierarchies and relevant functions of the bank
 - Visits on dedicated topics are part of the on-going supervision
- **In addition On- Site Inspections are a fundamental element of SSM supervision**
 - In-depth investigations of risks, risk controls and governance at the credit institution that follow specific procedures performed at the premises of the credit institution and are point in time investigations
 - Part of the annual Supervisory Examination Plan for each credit institution and approved by the Supervisory Board
 - Lead by a head of mission and conducted by mixed teams of ECB and NCA staff
- **Internal Model approval procedures**
 - Are organised as part of the ongoing supervision including off- and on site activities
 - Involving ECB and NCA staff from JSTs and horizontal functions

International Cooperation with Non SSM countries

- Colleges of supervisors remain the main tool for supervision of large cross border credit institutions
- ECB applies EU framework in the case of Non participating Member States and uses existing MoUs for cooperation with 3rd countries
- ECB takes the following role in colleges of supervisors
 - as a **home supervisor** when there are supervisors from non-participating Member States or from countries outside EU
 - as a **host supervisor** when the consolidating supervisor is from a non-participating Member State
- NCAs will attend the colleges meetings in an observer role (and in their role as insurance supervisor in case of financial conglomerates)
- ECB already attends college meetings in 2014

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Several key milestones are to be completed over the next months

- **Adoption of the list of significant institutions**
 - Assessment of significance to be based on data as of year-end 2013
- **Completion of the recruitment process for supervisory staff**
 - Most of the middle management for supervisory functions has been recruited
 - Recruitment of staff on expert level is on-going
- **Smooth transfer of responsibilities in the forthcoming months**
 - JSTs are currently set-up, defining the JST coordinators and ECB/ NCA participation
 - Dedicated meetings with credit institutions are planned starting in June (with participation of NCAs)
- **Completion of the Comprehensive Assessment before 4 November 2014**
 - Outcomes to be published before the operational start of SSM supervision
 - Increasing involvement of JSTs in the process