

EUROPEAN CENTRAL BANK

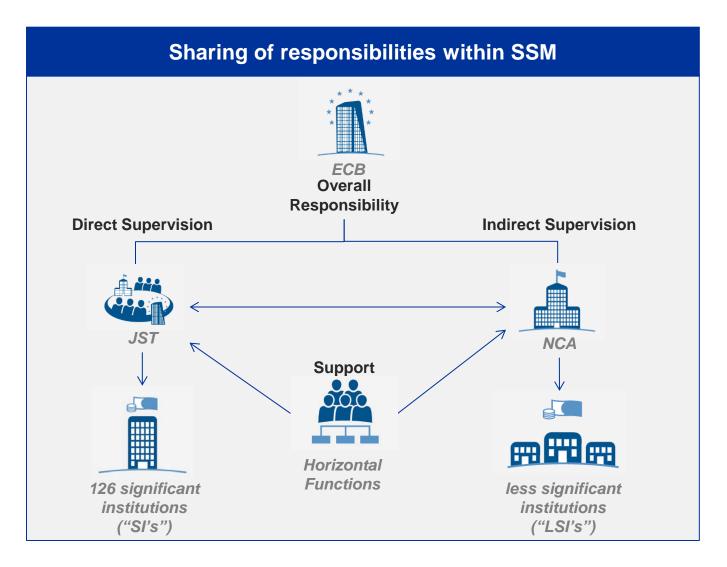
BANKING SUPERVISION

Rolf Klug Deputy Director General DG Microprudential Supervision II

Functioning of the Single Supervisory Mechanism

Conference on Completing the Banking Union, Ljubljana,14th February 2018

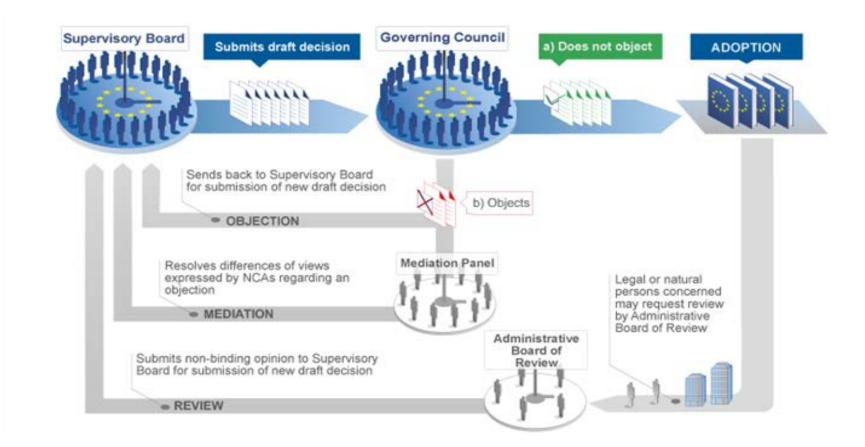
Single Supervisory Mechanism (SSM)



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SSM Governance

Decision taking based on non-objection procedure



The **Supervisory Board** takes draft decisions which are submitted to the **Governing Council**



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Within a defined period of time (10 working days) the decison is **adopted** if **non-objection** by the Governing Council

SSM Governance

ECB-PUBLIC

SSM organized in four DGs and a Secretariat to the SB

Direct Supervision	Indirect Supervision	Horizontal Supervision	Secretariat to the Supervisory
Microprudential Supervision I DG/2DDG DG/2DDG	Microprudential Supervision III DG/1DDG	Microprudential Supervision IV DG/2DDG	Board DG/1DDG
 ± 40 banking groups -Home:36 -Host:3 SSM Countries 12 Staff: ± 260 ∴ 40 banking groups -Home:71 -Host:16 SSM Countries: 19 Staff: ± 280 	Supervisory Oversight & NCA Relations	Centralised on-site Inspections	Authorisation
	Institutional & Sectoral Oversight	Enforcement & Sanctions Internal Models Planning & Coordination of	Crisis Management Supervisory Quality Assurance
	Analysis & Methodological Support	SEP Methodology & Standards Development	
	± 3.300 banking groups SSM Countries:19	Risk Analysis Supervisory Policies	Staff: ± 80
126 Significant Institutions: total assets € 22,7 Trillion	Staff: ± 90	Staff: ± 290	

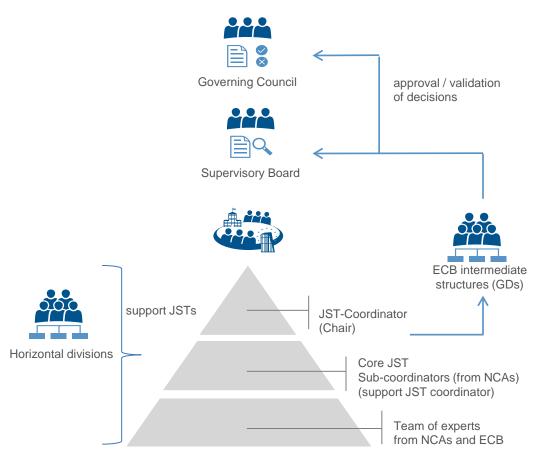
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Joint Supervisory Teams are the cornerstone in the supervision of significant institutions

One Team approach



- Building the authority of the JST coordinator and NCA subcoordinator
- Forming integrated teams composed of NCA and ECB staff
- Reaping benefits of combined European and local perspective in one team
- Bringing to bear horizontal perspectives

ECB staff providing the European perspective whereas NCAs bringing national and market expertise

Close cooperation between on-going SI supervision and horizontal functions

Horizontal support / Specialized expertise

DG IV



Authorisations Quality Assurance Methodology/ Standards Risk Analysis Enforcement/ Sanctions Crisis Management Planning and SEP Internal Models On-site Supervisory policies

Day-to-day Supervision through the JSTs

Direct knowledge & contact with banks

Direct contact with NCAs procedures

Practical methodology implementation

SEP drafting and execution

On-going assessment of internal models

Participation on on-site inspections

DG I-II



Organisational setup of DGMS III

	Director General					
	Deputy Director General					
Supervisory Oversight & NCA Relations	Institutional & Sectoral Oversight	Analysis & Methodological Support				
 Promote best supervisory practices and develop common standards Ensure consistency of supervisory outcomes 	 Oversee sectors and country-specific institutional arrangements Exchange information with NCAs on high-priority LSIs Participate in crisis management Country Desk 1 Desk 2 Desk 3 	 Prepare methodologies for LSI supervision (e.g. risk-based prioritisation of banks, SREP application) Analyse common sources of risk 				

Mission : To promote the **highest quality of supervision** and **consistent** supervision across NCAs, in a **proportionate and collaborative** manner.

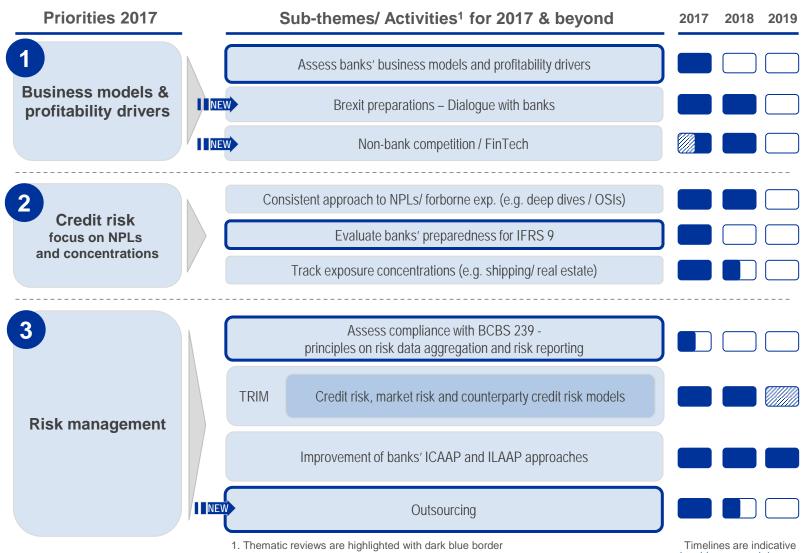
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On-going Supervision – The SREP Process

Quantitative Capital Measures		Quantit	Quantitative Liquidity Measures		C	Other Supervisory Measures			
			SREP Decision						
SREP Assessment									
Business Model	Governance and Risk Management	Capital related Risks			Risks to Liquidity and Funding				
Profitability and Sustainability	Adequacy	Risk Assessment	ICAAP Benchmarking	Stressed IC Benchmark		Risk Assessment of idiosyncratic stresses	ILAAP/Internal Governance		
		Pillar 2 Capital Requirement				Pillar 2 Liquidity Requirement			
			On-going S	upervisi	on				

SSM Supervisory Priorities



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The need to clean up balance sheets

- The levels of NPLs have fallen over the past year, but at almost €800 billion NPLs still pose a problem
- Banks need to clean up their balance sheets now. Carrying over NPLs to the next downturn would only worsen the problem
- European banking supervision puts much effort into helping the banks resolve their NPLs
- The stress test 2018 is a moment of truth to check how clean and resilient balance sheets really are

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- It is in the run up of the cycle that banks and supervisors need to be the most vigilant to make the system resilient to the inevitable shocks that come with downturn
- Main areas of supervisory expectations to mitigate excess risk taking and inadequate controls:
 - Risk appetite framework (RAF)
 - Business models
 - Management of credit risk
 - Management of trading risks
 - Management of funding profile

Thank you for your attention!



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