



EUROPEAN CENTRAL BANK

BANKING SUPERVISION

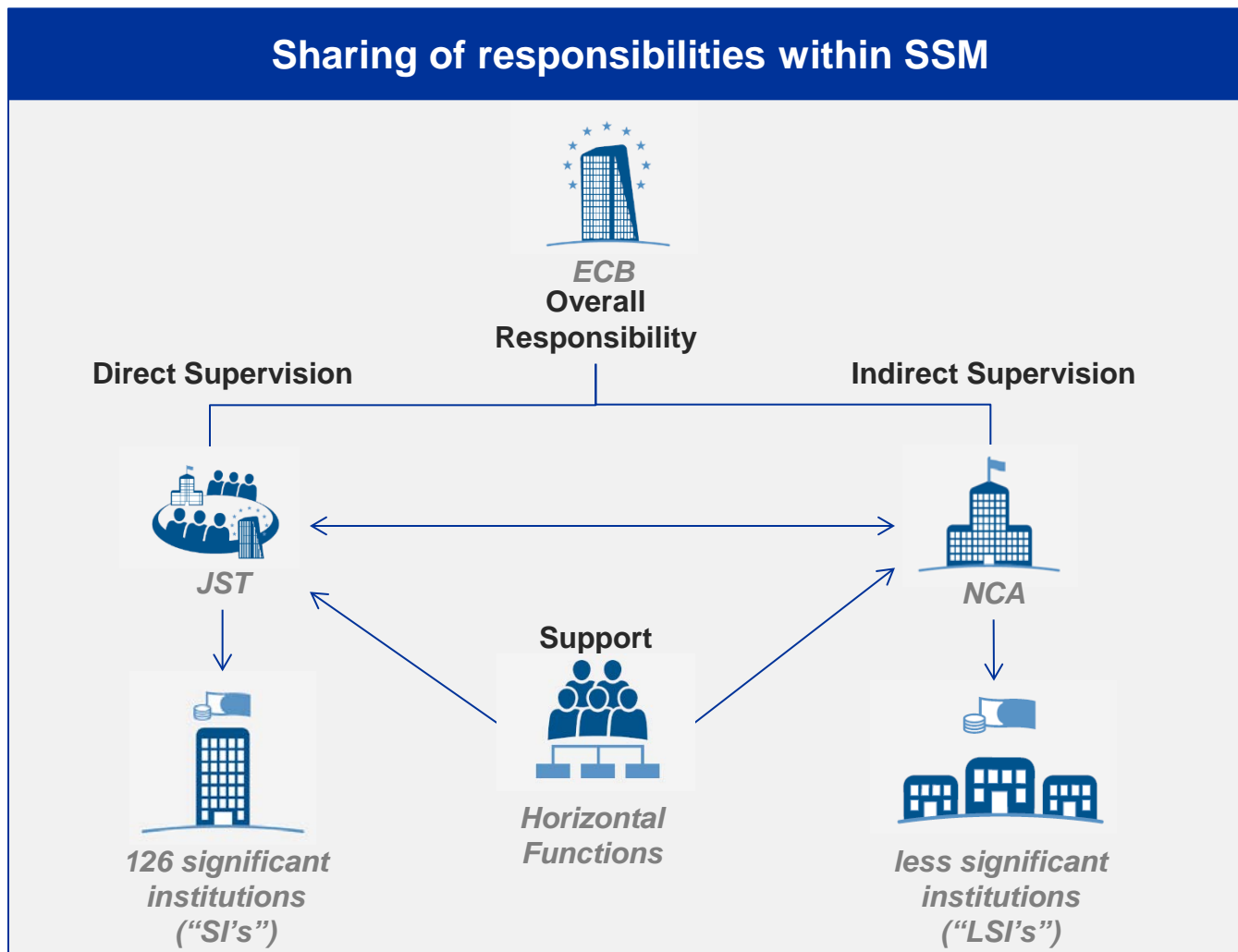
Rolf Klug

Deputy Director General

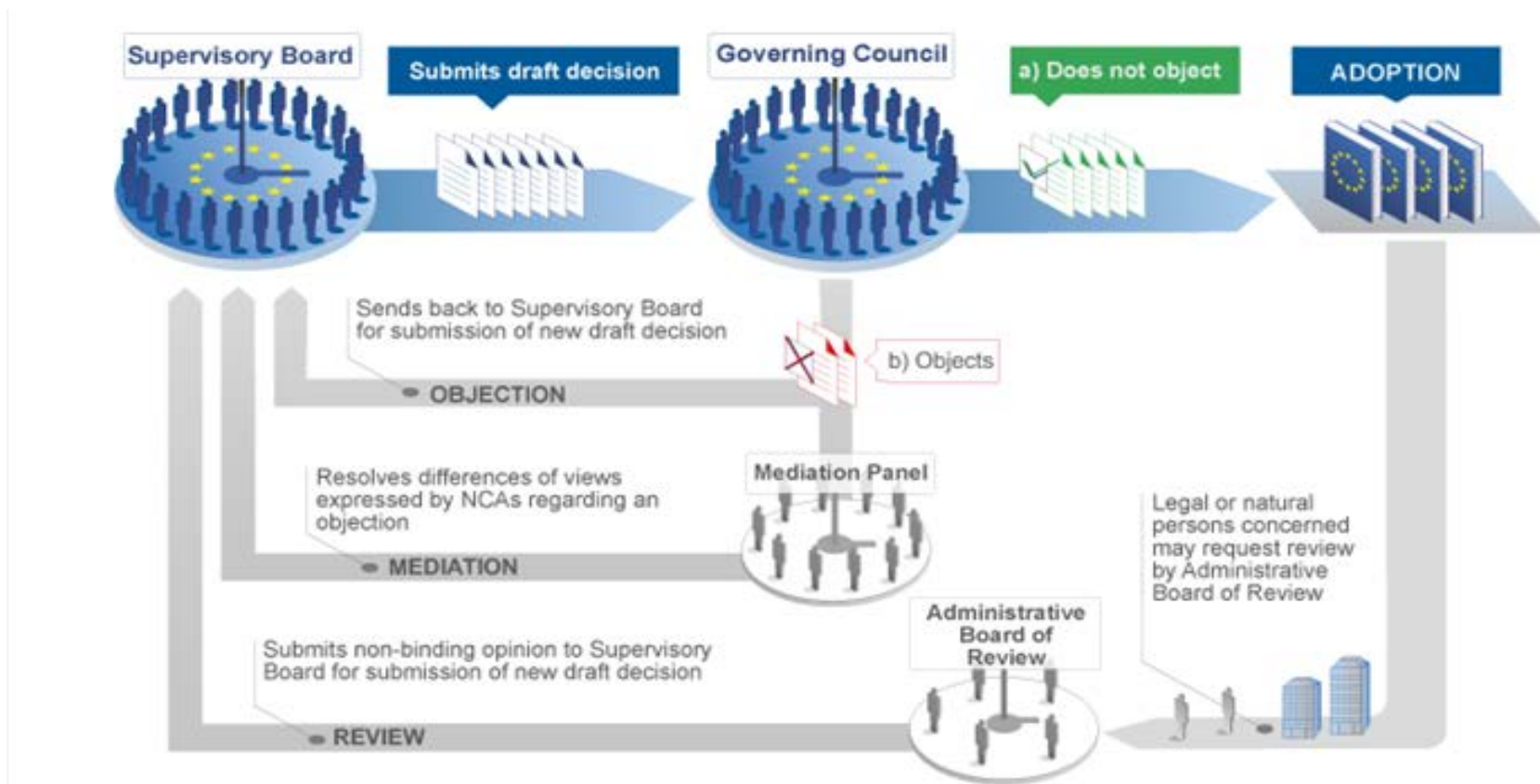
DG Microprudential Supervision II

Functioning of the Single Supervisory Mechanism

Single Supervisory Mechanism (SSM)



Decision taking based on non-objection procedure



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



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

SSM organized in four DGs and a Secretariat to the SB

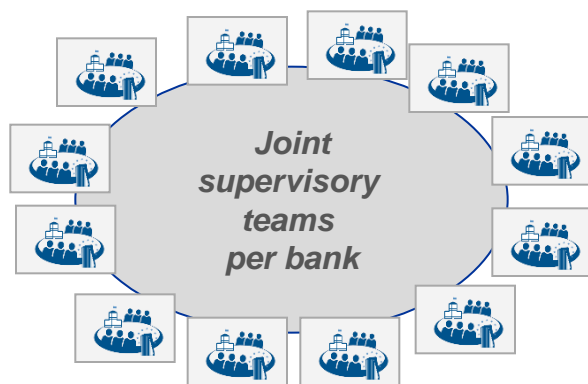
Direct Supervision

**Microprudential Supervision I
DG/2DDG**

**Microprudential Supervision II
DG/2DDG**

± 40 banking groups
-Home:36
-Host:3
SSM Countries 12
Staff: ± 260

± 90 banking groups
-Home:71
-Host:16
SSM Countries: 19
Staff: ± 280



126 Significant Institutions: total assets €22,7 Trillion

Indirect Supervision

**Microprudential Supervision III
DG/1DDG**

Supervisory Oversight & NCA Relations

Institutional & Sectoral Oversight

Analysis & Methodological Support

± 3.300 banking groups
SSM Countries:19
Staff: ± 90

Horizontal Supervision

**Microprudential Supervision IV
DG/2DDG**

Centralised on-site Inspections

Enforcement & Sanctions

Internal Models

Planning & Coordination of SEP

Methodology & Standards Development

Risk Analysis

Supervisory Policies

Staff: ± 290

**Secretariat to the Supervisory Board
DG/1DDG**

Authorisation

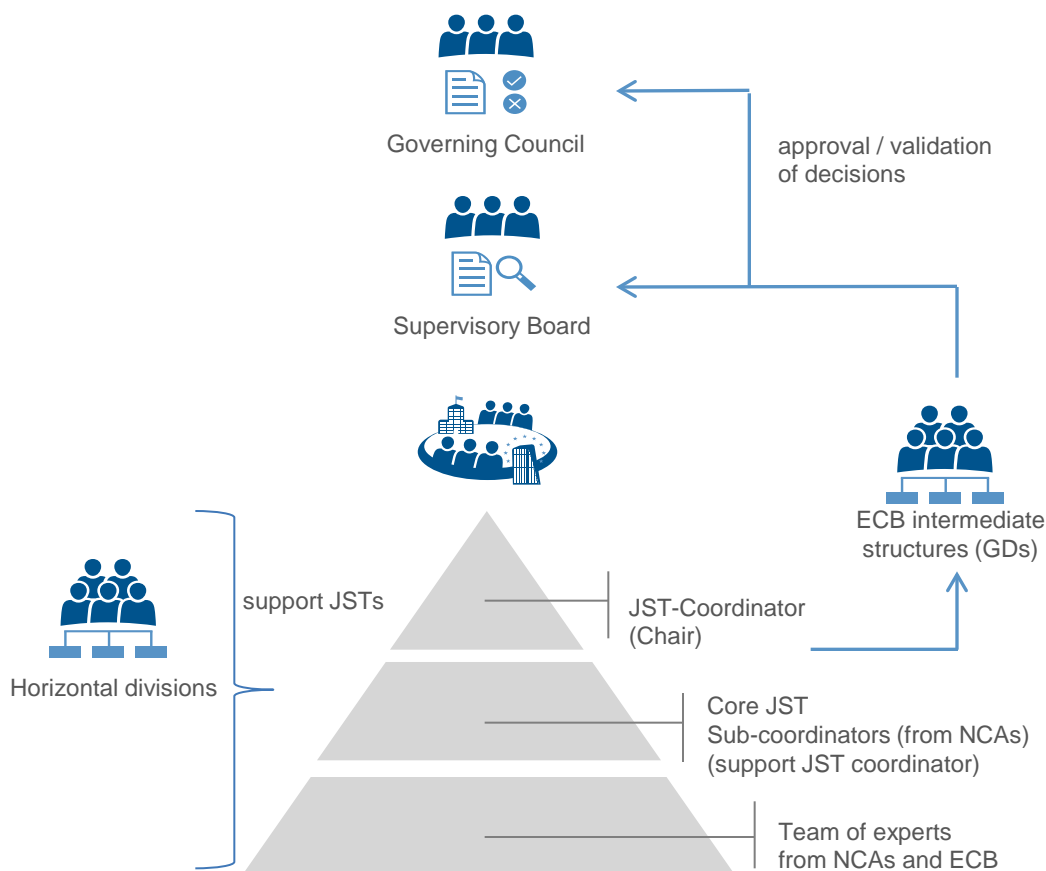
Crisis Management

Supervisory Quality Assurance

Staff: ± 80

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

One Team approach



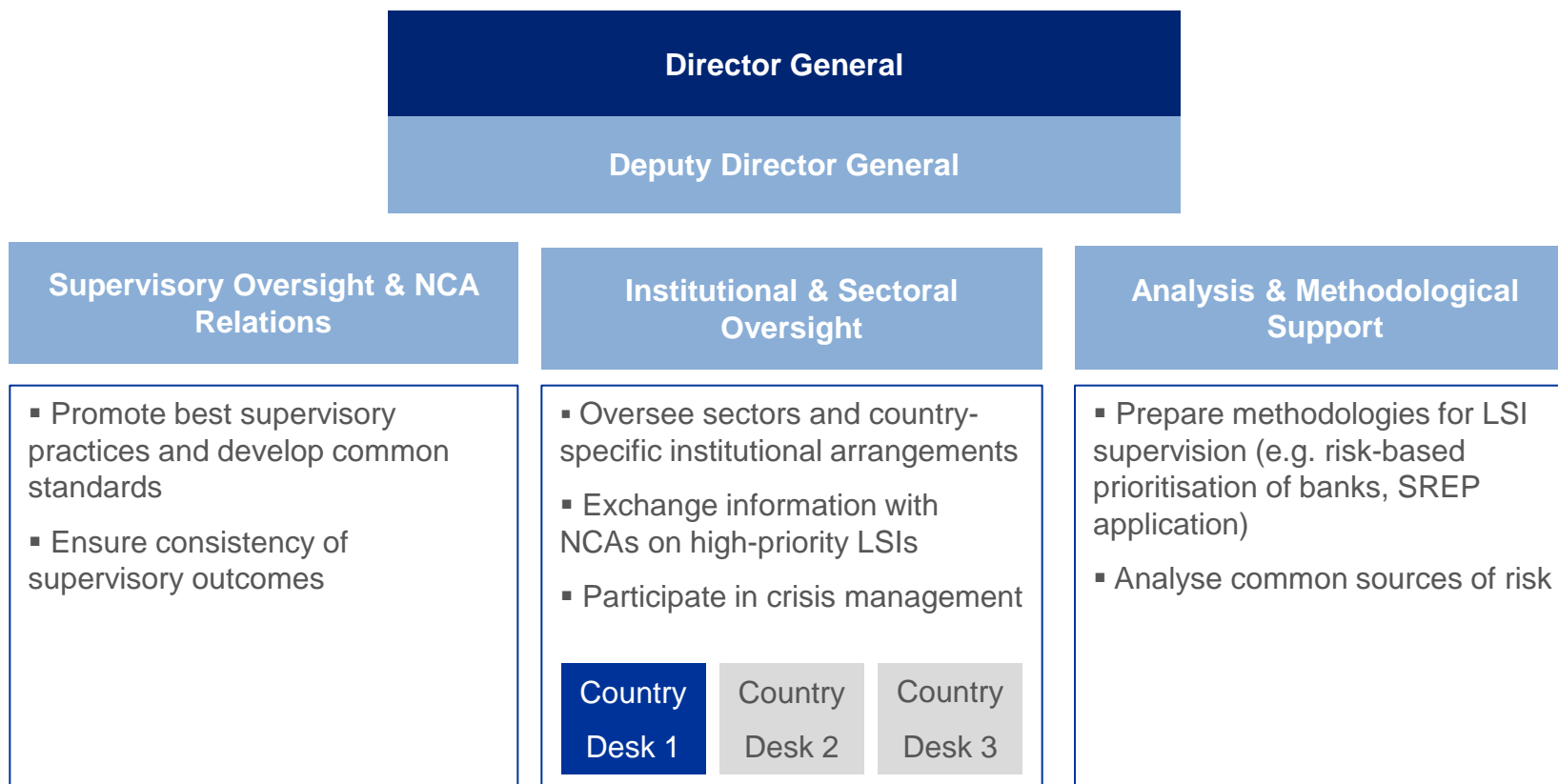
- Building the authority of the JST coordinator and NCA sub-coordinator
- Forming integrated teams composed of NCA and ECB staff
- Reaping benefits of combined European and local perspective in one team
- Bringing to bear horizontal perspectives

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

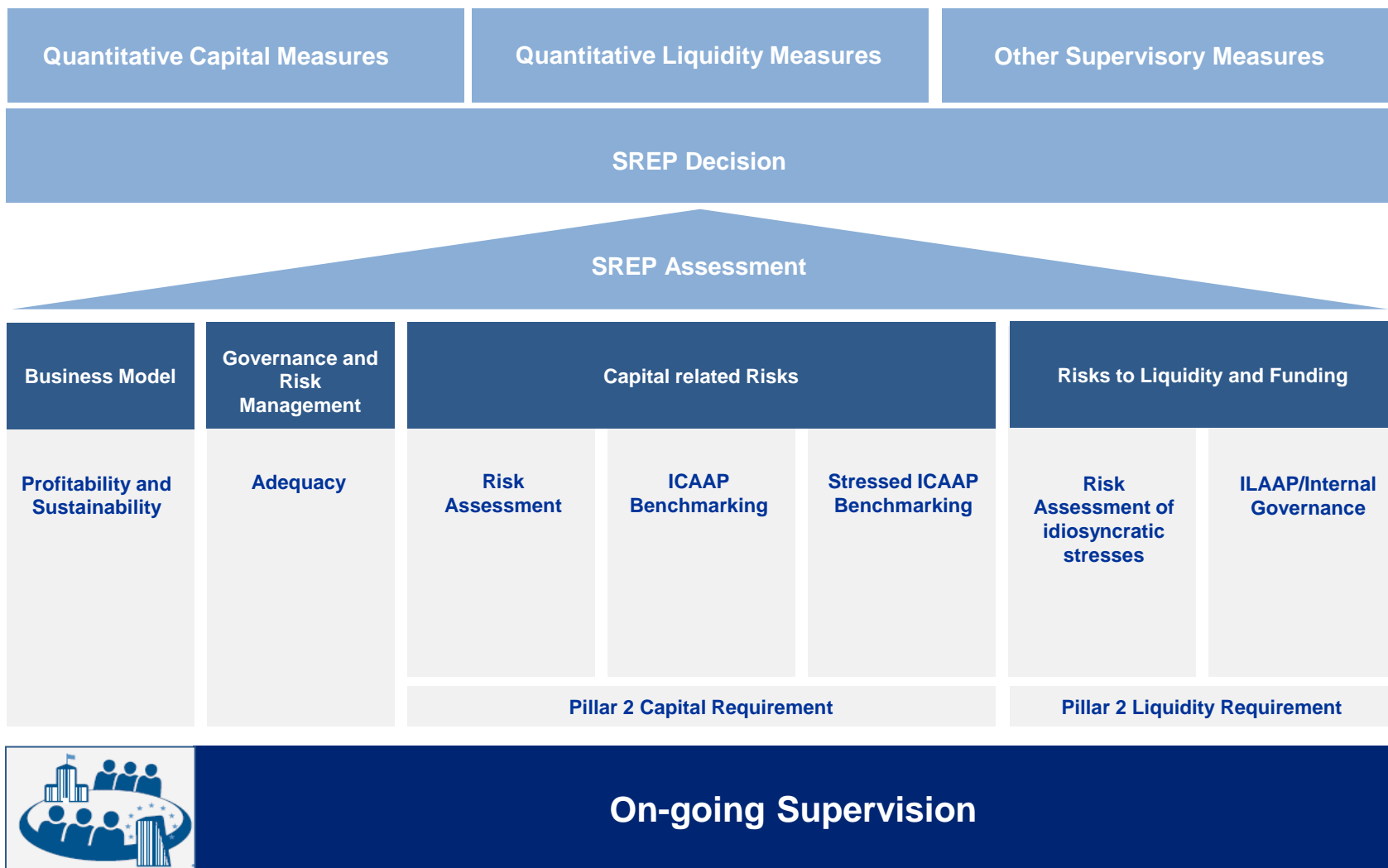
Close cooperation between on-going SI supervision and horizontal functions



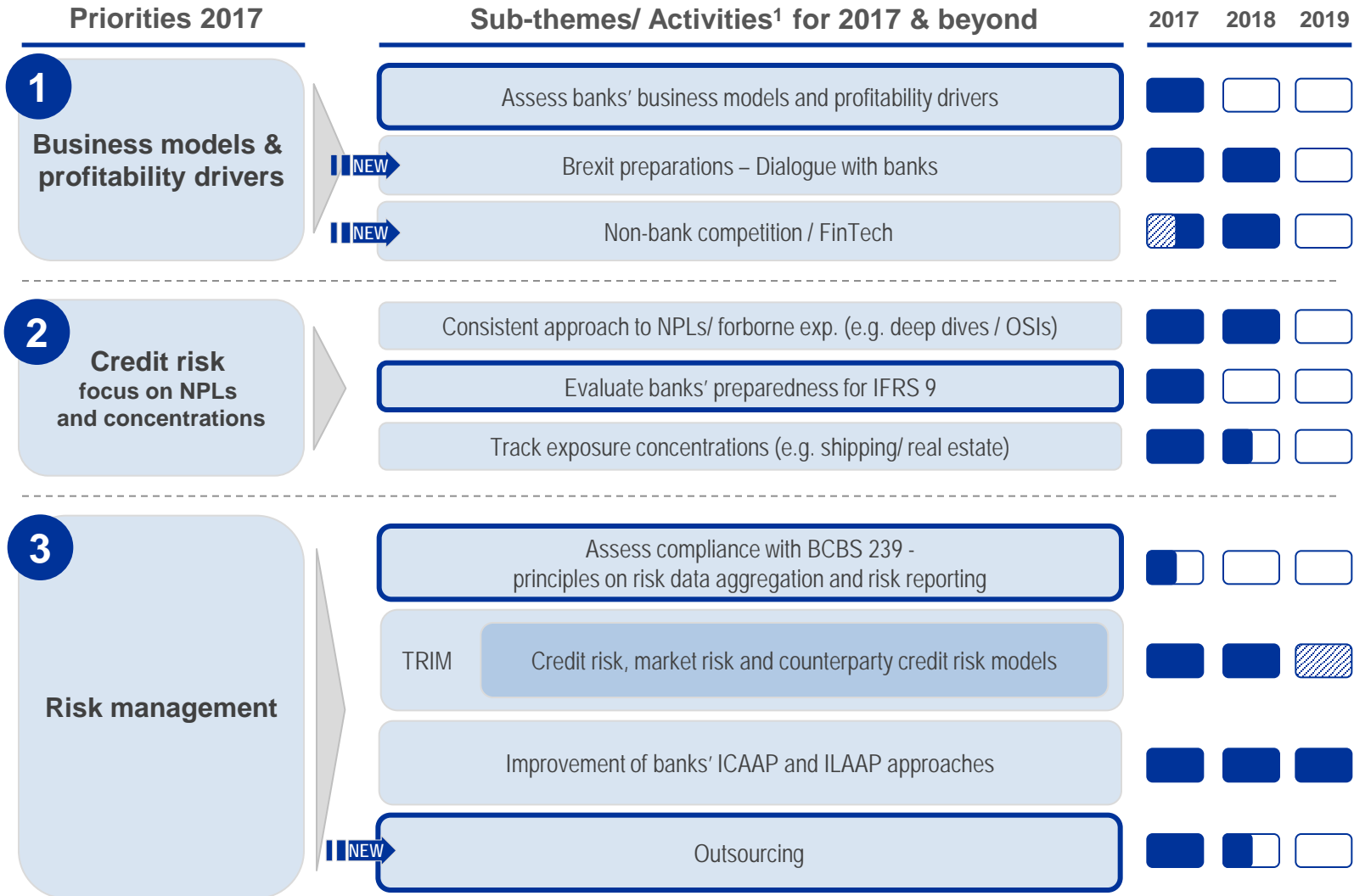
Organisational setup of DGMS III



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



SSM Supervisory Priorities



1. Thematic reviews are highlighted with dark blue border

Timelines are indicative
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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

- **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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