Frankfurt am Main, 11 July 2016

Re: Your letter (QZ072)

Honourable Member of the European Parliament, dear Mr Giegold,

Thank you for your letter, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 17 June 2016.

With reference to your question as to whether the Supervisory Review and Evaluation Process (SREP) decisions\(^1\) in force for 2016 imposed capital requirements derived from hypothetical situations such as those set out in the adverse scenarios of the European Banking Authority (EBA) stress tests, I can confirm that the SREP methodology included a forward-looking stress test-related perspective embedded in what is called “Block 3” of the capital adequacy assessment. However, last year this element was not binding in the determination of the capital requirements. For additional details on the 2015 SREP methodology, let me point you to the SSM SREP Methodology Booklet.\(^2\) For the SREP 2016, however, given the large-scale stress tests being carried out in 2016, it was necessary to analyse how to further fine-tune our toolkit to ensure that the insights from these stress tests feed into the assessment of the banks’ risk profiles. In line with the EBA’s recent news item on the topic,\(^3\) the ECB will implement the concept of capital guidance in its 2016 SREP decisions.

With regard to your second question as to whether the “SSM plans to substantially reduce the 2017 SREP ratios compared to 2016 across all banks”, I would like to point out that we have communicated on a number of occasions that – all things being equal – the ECB plans to maintain overall capital levels in the system. The introduction of complementary Pillar 2 capital requirements and capital guidance therefore does not reduce the capital demand for the system. It rather expresses the capital demand in the form of these two components. While failing to meet Pillar 2 guidance is not, in legal terms, a breach of capital requirements,

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1 Please be informed that when speaking of “SREP 2015”, we refer to the SREP decisions that were taken in 2015 for 2016 and likewise “SREP 2016” refers to decisions taken in 2016 for 2017.


banks still need to take it seriously: failing to meet Pillar 2 guidance would lead to intensified supervision and institution-specific measures designed to re-establish a prudent level of capital. At the same time, Pillar 2 guidance will not be taken into account when computing the automatically triggered maximum distributable amount. All in all, the sum of the Pillar 2 requirements and the Pillar 2 guidance to be introduced will add up to a level of capital demand comparable to the SREP ratio of 2015, all things being equal.

With reference to your third question, as to whether the SSM "intends to reduce the SREP ratios for globally systemically important institutions (G-SIIs)"4, let me clarify that based on the 2016 SREP assessment, each institution will be measured against the same yardstick, i.e. following the SSM SREP methodology, in order to determine the respective capital demand. There is no special approach for G-SIIs.4

Yours sincerely,

[signed]
Danièle Nouy

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4 With regard to the combined buffer requirements, please see page 28 of the SSM SREP Methodology Booklet 2015, where you can find information on the capital stack on which the 2015 SREP decisions were based.