



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Andrea ENRIA

Chair of the Supervisory Board

COURTESY TRANSLATION

Ms Laura Agea
Mr Fabio Massimo Castaldo
Mr Piernicola Pedicini
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Members of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 27 March 2019

Re: Your letter (QZ020)

Honourable Members of the European Parliament,

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 1 March 2019.

Your questions refer to the way in which ECB Banking Supervision conducts its stress test activities and why a particular external service provider was used for these activities in 2016 and 2018.

ECB Banking Supervision carried out the quality assurance for the EBA EU-wide stress tests for euro area banks in 2016 and 2018, as well as an ECB-internal Supervisory Review and Evaluation Process (SREP) stress test covering significant institutions that were not subject to the EBA stress tests, as clarified by my predecessor in her replies to Mr Zanni MEP¹, Mr Schäffler MdB² and Mr Viegas MEP³. Stress tests are usually conducted every other year, take between four and nine months to complete and require a significant number of risk experts and project management experts. The related workload comes on top of the ECB's regular banking supervision tasks. In the past, the required staff resources could not be provided by ECB Banking Supervision and the national competent authorities alone, and it was therefore necessary to engage external service providers to assist in these activities.

In her letters to Mr Schäffler MdB dated 1 October 2018⁴ and 8 November 2018⁵, my predecessor gave details of the support provided by the two external service providers, BlackRock Financial Management Inc.

¹ https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.mepletter190225_Zanni~9f21dee850.en.pdf

² https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.mepletter181001_Schauble.en.pdf and https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.mepletter181108_Schauble.en.pdf

³ https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.mepletter180711_Viegas.en.pdf

⁴ https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.mepletter181001_Schauble.en.pdf

⁵ https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.mepletter181108_Schauble.en.pdf

and McKinsey & Company Inc., during the 2016 EBA EU-wide stress test (and the related ECB Banking Supervision SREP stress test) and by BlackRock Financial Management Inc. during the 2018 EBA stress test. The provision of services was based on order contracts signed under two different framework agreements for services, which were concluded with McKinsey & Company Inc. in 2015 and with BlackRock Financial Management Inc. in 2016. Each framework agreement has a maximum duration of four years, and each was signed following public procurement procedures with publication of contract notices and contract award notices in the Official Journal of the European Union.⁶ The ECB conducted both procurement procedures as negotiated procedures in compliance with Decision ECB/2007/5 and, in particular, Article 12 thereof.⁷ The award of order contracts for tasks under these framework agreements is subject to a competition among framework contractors. Competitions for the specific tasks to be performed in the 2016 and 2018 stress tests were won by the two aforementioned service providers.

When making use of such external service providers, ECB Banking Supervision carefully considers the risks involved and in particular any potential conflict of interest. ECB Banking Supervision also ensures that these risks are mitigated to the greatest extent possible through provisions in the relevant contracts. My predecessor highlighted in her letter to Mr Viegas MEP⁸ of 11 July 2018 that in the specific case of BlackRock Financial Management Inc.'s involvement in stress tests, the company was required to ensure a strict separation between the team supporting the stress test exercises and any other teams advising large financial institutions or investors. Furthermore, BlackRock Financial Management Inc. was not permitted to provide services related to stress tests to the banks while they were undergoing stress tests or during an appropriate cooling-off period thereafter. Additionally, BlackRock staff performing services under the contracts were subject to individual confidentiality agreements. Whenever visiting the ECB, they were subject to the ECB's house rules for external staff, which included comprehensive requirements to safeguard the security and confidentiality of information, data and documents concerning the ECB, its staff, the contract and the performance thereof. In this context, any information, data or documents made available to BlackRock staff for the purposes of performing the services under the aforementioned framework agreement were shared using the ECB's information technology (IT) facilities. This is to stress that at no point in time were ECB information, data or documents accessible from outside the ECB's dedicated IT infrastructure.

In conclusion, I would like to mention, as also noted in my response to Mr Zanni MEP⁹ of 22 February 2019, that for the upcoming EBA EU-wide stress test in 2020, the Governing Council of the ECB decided to recruit additional ECB staff to work on stress tests, thereby reducing the reliance on consultants in both this and future stress test exercises.

Yours sincerely,

[signed]

Andrea Enria

⁶ <http://ted.europa.eu/TED/notice/udl?uri=TED:NOTICE:456382-2015:TEXT:EN:HTML>,
<https://ted.europa.eu/udl?uri=TED:NOTICE:173172-2015:TEXT:EN:HTML&src=0>,
<https://ted.europa.eu/udl?uri=TED:NOTICE:155797-2016:TEXT:EN:HTML&src=0> and
<https://ted.europa.eu/udl?uri=TED:NOTICE:319865-2015:TEXT:EN:HTML&src=0>.

⁷ https://www.ecb.europa.eu/ecb/legal/pdf/l_18420070714en00340048.pdf?42411110c7456dce56eabd535dca2177

⁸ https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.mepletter180711_Viegas.en.pdf

⁹ https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.mepletter190225_Zanni~9f21dee850.en.pdf.